Comba

京信通信系統控股有限公司

Comba Telecom Systems Holdings Limited

股份編號 Stock Code : 2342

2016 ANNUAL REPORT 年報

Exploring Opportunities • Creating Value

開拓商機 • 創新價值

Reforming Mechanism • Enhancing Efficiency

變革機制 • 提升效能

COMPANY PROFILE
公司概況

Established in 1997 and listed on the Main Board of the Hong Kong Stock Exchange in 2003, Comba Telecom Systems Holdings Limited (the "Company") is a global leading 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 approximately 2,400 Chinese and international patents. Our global manufacturing based, located in Guangzhou Economic and Technological Development District, covers an area of approximately 80,000 square meters.

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

In December 2016, the Company won the Technological Achievement Grand Award at the 2016 HK Awards for Industries. Additionally, the Company has been included into several indexes including MSCI China Small Cap Index, Hang Seng Composite Index (Information Technology Industry Index, MidCap & SmallCap Index and SmallCap Index), Hang Seng Global Composite Index, Hang Seng Internet & Information Technology Index, as well as Hang Seng Corporate Sustainability Benchmark Index.

京信通信系統控股有限公司(「本公司」)成立於1997年，於2003年在香港聯交所主機板上市，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、美國華盛頓市及加利福尼亞州分別設有研究所，已申請國內外專利約2,400項。在中國廣州經濟技術開發區，本公司建有全球生產基地，廠房面積約80,000平方米。

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

2016年12月，本公司榮獲2016香港工商業獎科技成就獎殊榮。此外，本公司已獲納入多項指數，包括MSCI中國小型股指數、恒生綜合指數(資訊科技業指數、中小型股指數及小型股指數)、恒生 環球綜合指數、恒生互聯網科技業指數及恒生可持續發展企業基準指數。

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling *(Chairman)*
Zhang Yue Jun *(Vice Chairman & President)*
Zheng Guo Bao
Yeung Pui Sang, Simon
Zhang Yuan Jian
Tong Chak Wai, Wilson (resigned on 6 June 2016)

Independent Non-Executive Directors

Liu Cai (will resign on 31 March 2017)
Lau Siu Ki, Kevin
Lin Jin Tong
Qian Ting Shuo

COMPANY SECRETARY

Chan Siu Man (appointed on 30 June 2016)
Tong Chak Wai, Wilson (resigned on 30 June 2016)

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin *(Chairman)*
Liu Cai (will resign on 31 March 2017)
Lin Jin Tong
Qian Ting Shuo

NOMINATION COMMITTEE

Liu Cai *(Chairman)* (will resign on 31 March 2017)
Lau Siu Ki, Kevin
Lin Jin Tong (will be appointed as Chairman on 31 March 2017)
Qian Ting Shuo

AUTHORIZED REPRESENTATIVES

Fok Tung Ling
Chan Siu Man (appointed on 30 June 2016)
Tong Chak Wai, Wilson (resigned on 30 June 2016)

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China CITIC Bank International Limited
80 FL International Commerce Centre
1 Austin Road West
Kowloon Hong Kong

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

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

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

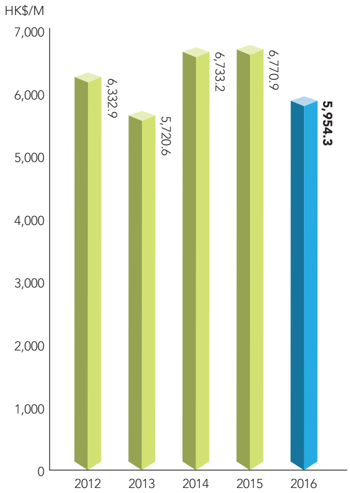
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road GETD District
Guangzhou PRC

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

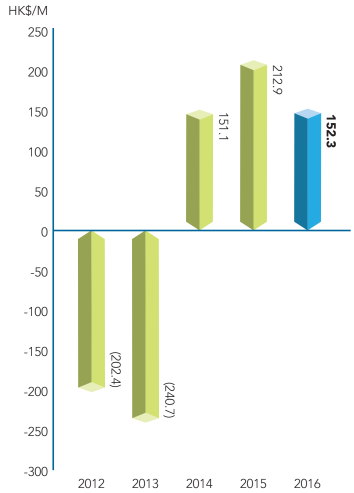
China Merchants Bank Co Ltd
Guangzhou Branch Gaoxin Sub-branch
1 Huajing Road 1st Floor
Southern Communication Plaza
Guangzhou PRC

FINANCIAL SUMMARY

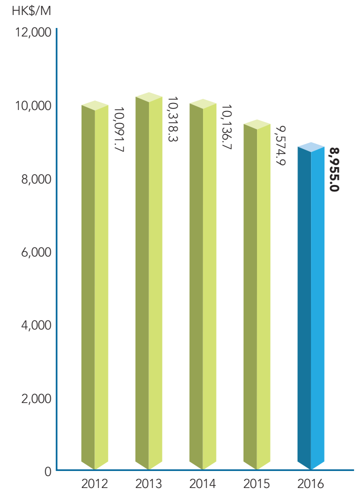
REVENUE



PROFIT / (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

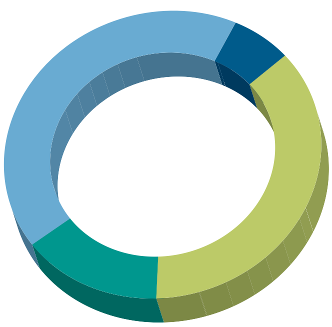


TOTAL ASSETS



REVENUE BREAKDOWN BY BUSINESSES

▲ / ▼ = YoY change



▼ 19.1% Antennas & Subsystems
42.0%

▼ 9.0% Services
36.5%

▲ 37.6% Wireless Access & Transmission
6.6%

▼ 11.9% Wireless Enhancement
14.9%

REVENUE BREAKDOWN BY CUSTOMERS

▲ / ▼ = YoY change

▼ 16.9 % China Mobile
29.5%

▼ 11.4% China Unicom
25.8%

▼ 25.3% China Telecom
19.8%

▼ 4% International Customers & Core Equipment Manufacturers
18.3%

▲ 86.3% Enterprise
6.6%

FINANCIAL SUMMARY

For the year ended 31 December	2016 HK$'000	2015 HK$'000	Change
Revenue	**5,954,328**	6,770,894	(12.1%)
Gross profit	**1,728,391**	1,914,490	(9.7%)
Gross profit margin	**29.0%**	28.3%	0.7pp
Operating profit	**301,628**	396,540	(23.9%)
Profit attributable to owners of the parent	**152,257**	212,876	(28.5%)
Net profit margin	**2.6%**	3.1%	(0.5)pp
Basic earnings per share (HK cents) *	**6.23**	8.69 *(restated)*	(28.3%)
Paid interim dividends per ordinary share (HK cents)	**1.5**	1.5	–
Proposed final dividends per ordinary share (HK cents)	**0.8**	1.8	(55.6%)
Total dividends per ordinary share (HK cents)	**2.3**	3.3	(30.3%)
Issued bonus of shares (interim)	**1 for 10**	1 for 10	N.A.
Proposed bonus issue of shares (final)	**–**	1 for 10	N.A.
Net operating cash flows	**411,666**	1,089,433	(62.2%)

KEY FINANCIAL FIGURES

As at 31 December	2016 HK$'000	2015 HK$'000	Change
Total assets	**8,954,959**	9,574,875	(6.5%)
Net assets (before non-controlling interests)	**3,437,687**	3,652,531	(5.9%)
Net assets per share (HK dollars) *	**1.4**	1.48 *(restated)*	(5.4%)
Net cash	**260,800**	647,829	(59.7%)
Cash and bank balances and time deposits	**1,627,612**	2,018,661	(19.4%)
Inventory turnover days	**133**	149	(16) Days
A/R turnover days	**239**	225	14 Days
A/P turnover days	**266**	251	15 Days
Gross gearing ratio	**15.3%**	14.3%	1pp
Dividend payout ratio **	**36.9%**	31.4%	5.5pp
Return on average equity	**4.3%**	5.8%	(1.5)pp

* Basic Earnings per share and net assets per share as at 31 December 2015 was adjusted to reflect the bonus issues during the Current Year.

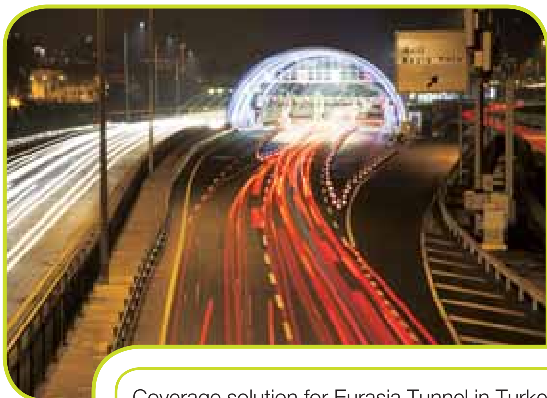
** Calculation is based on basic EPS.

CORPORATE MILESTONE 2016

PROJECTS

Coverage solution for 2016 Summer Games soccer stadiums in Rio

Communication support for Boao Forum for Asia in Hainan



Coverage solution for Eurasia Tunnel in Turkey

4G renovation project for Line 1 of Nanchang Metro

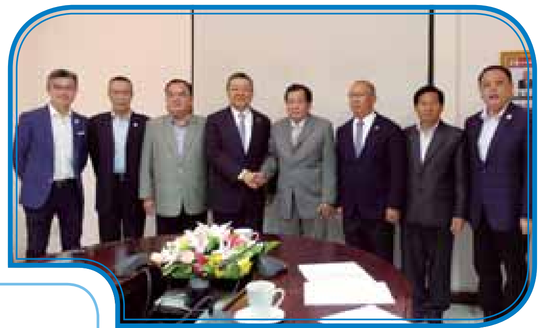
AWARDS & RECOGNITION

Technological Achievement Grand Award at the 2016 Hong Kong Awards for Industries

Gold Prize at the 18th China Patent Award

CORPORATE MILESTONE 2016

MARKET EXPANSION



Entered into joint venture agreement: gain access to wireless telecommunications network market in Lao P.D.R.

Comba Telecom and ASTRI jointly establish research and development laboratory focusing on smart city and smart home technologies

Comdi Telecom was founded: developing maritime VSAT communication and internet-of-vessels businesses

The First Guangdong Corporate Social Responsibility Excellence Award

Named as "Tier 1 Antenna Supplier Globally" for fifth consecutive year by EJL Wireless Research

CHAIRMAN'S STATEMENT

On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries ("Comba Telecom" or the "Group") for the year ended 31 December 2016 (the "Current Year").

Over the past year, operators reduced their capital expenditures for sluggish development of the telecommunications industry as a result of continuous decline in global economic growth. With complicated market environment, the Group's overall revenue during the Current Year decreased by 12.1% to HK$5,954,328,000 as compared with that of the year ended 31 December 2015 (the "Prior Year") while profit attributable to shareholders during the Current Year decreased by 28.5% to HK$152,257,000 as compared with the Prior Year. However, the Group was committed to exploring innovative needs of customers and expanding new customer areas to create value for customers in a carefully considered and prudent manner while consolidating its existing market. The Group continued to implement management system innovation and reform with the aim to refine its business operations and boost its overall operational efficiency.

In order to thank the shareholders for their long-term support, the board of directors of the Group (the "Board") recommended distributing a final dividend of HK0.8 cents per ordinary share. Combined with the distributed interim dividend of HK1.5 cents per ordinary share, the total dividends of the Company for the Current Year may amount to HK2.3 cents per ordinary share, according to the relevant resolution concluded at the annual general meeting.

Over the past year, as a main supplier of domestic telecommunication operators, Comba Telecom has been well recognized with its proven quality. The Group's product mix and solutions are becoming more diversified and customized. Meanwhile, the Group has made brilliant achievements through undertaking landmark wireless projects at home and abroad, such as football stadium coverage for Rio Olympics, tunnel and hotel coverage for Hangzhou G20 Summit, etc. The Group's solid position of its core information and telecommunication service products has enabled it to maintain a leading market share. Comba Telecom is also proactively investing in research and development of 5G technology and application.

Looking ahead, with continuous improvement of the industry development environment, we will continue to strengthen and expand our customer base, capitalize on this industry development environment for ongoing innovation and boost the integration of information and communication technology ("ICT") application service capabilities, so as to provide customized technology products, solutions and services to telecommunication operators and specialized government and enterprise network customers, and develop the Company from an equipment supplier into a provider of overall solution application services.

CHAIRMAN'S STATEMENT

As the innovation economy will achieve a leapfrog development, the Group will grasp the social and industry development trends to develop integrated solutions of information, communications and intelligence. The Group will provide a variety of "tailor-made" professional solutions to customers based on their different usage scenarios and provide convenient, intelligent and secure services for more government and enterprise customers. At the same time, the Group announced to invest in ETL, the third largest state-owned operator in Laos, to expand information and communication services and enter the operator business field. We also have confidence in the prospect and synergies of the strategic acquisition. Over the next few years, the Group will endeavor to develop a set of integrated solutions of network construction, operation management and business services that are particularly suitable for small operators.

At present, Comba Telecom operates worldwide to provide telecommunications support services in five continents. With successful internationalization of its businesses, the Group will strengthen cooperation with the world's leading telecommunications equipment providers, and launch innovative solutions on a continuous basis to satisfy the demands generated by the industrial transformation and upgrade. Meanwhile, the Group will continue to pay more attention to the development of enterprise network.

Despite more complicated and changing external environment in 2017, we will be committed to achieving innovation and development in the information telecommunications areas so as to provide customers with excellent information and communications solutions and services with the mission of "Connecting the world to promote the progress of human civilization" and "Exploring Opportunities, Creating Value, Reforming Mechanism, Enhancing Efficiency". Under the overarching strategic direction of business transformation and upgrade, we are determined to create more achievements in the future through persistent efforts as a means to express our appreciation for the shareholders' support over the years.

Lastly, on behalf of the Board, I would also like to express my heartfelt thanks to the shareholders for their continuing support and trust and to all of our staff for their dedicated efforts.

Fok Tung Ling
Chairman
Hong Kong
22 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

REVENUE

Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") reported revenue amounting to HK$5,954,328,000 (2015: HK$6,770,894,000) for the year ended 31 December 2016 (the "Current Year"), representing a decrease of 12.1% over the year ended 31 December 2015 (the "Prior Year"). The decrease was mainly due to reduced capital spending by mobile network operators as a result of rapid 4G penetration and deceleration in macro-economic environment, and reduced overall investment intensity also dampened the Group's revenue to a certain extent.

By Customers

During the Current Year, the Mainland China market experienced a decrease of 13.7% to HK$4,864,836,000 (2015: HK$5,636,306,000) in its revenue. In view of the distinctive business strategies adopted by PRC mobile network operators as well as their differing investment levels and focuses, the respective revenue contributions and year-on-year growth rates by the major customers of the Group also varied.

Revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") was HK$1,756,149,000 (2015: HK$2,114,042,000), representing a decrease of 16.9% over the Prior Year and accounting for 29.5% (2015: 31.2%) of the Group's revenue.

Revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as the "China Unicom Group") decreased by 11.4% over the Prior Year to HK$1,536,667,000 (2015: HK$1,734,219,000), accounting for 25.8% of the Group's revenue in the Current Year, compared to 25.6% in the Prior Year.

Revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") decreased by 25.3% over the Prior Year to HK$1,178,199,000 (2015: HK$1,576,667,000), accounting for 19.8% of the Group's revenue in the Current Year, compared to 23.3% in the Prior Year.

Revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and specialized government and enterprise network customers, increased by 86.3% to HK$393,821,000 (2015: HK$211,378,000) and represented 6.6% (2015: 3.1%) of the Group's revenue in the Current Year. China Tower is a new customer of the Group and in view of the growing demand for wireless solutions for enterprise networks, the management expects the significance of the revenue contribution by China Tower and special network customers will be gradually increasing in the future.

On the international front, revenue generated from international customers and core equipment manufacturers decreased by 4.0% in aggregate to HK$1,089,492,000 (2015: HK$1,134,588,000), accounting for 18.3% (2015: 16.8%) of the Group's revenue in the Current Year. Although revenue from international customers declined during the Current Year, the Group made progress with core equipment manufacturers which reported positive growth.

By Businesses

Revenue generated from the antennas and subsystems business decreased by 19.1% over the Prior Year to HK$2,501,516,000 (2015: HK$3,092,156,000), accounting for 42.0% (2015: 45.7%) of the Group's revenue in the Current Year. The decrease in revenue was mainly due to declining overall market demand as the fourth generation of mobile telecommunications ("4G") network build-outs was basically completed.

Revenue generated from the wireless enhancement business in the Current Year decreased by 11.9% to HK$885,040,000 (2015: HK$1,004,095,000) over the Prior Year, accounting for 14.9% (2015: 14.8%) of the Group's revenue. However, revenue generated from the wireless access and transmission business increased by 37.6% over the Prior Year to HK$393,363,000 (2015: HK$285,952,000), accounting for 6.6% (2015: 4.2%) of the Group's revenue. In view of mobile network operators' increasing focus on densifying networks to manage rising mobile data traffic consumption, revenue generated from wireless enhancement decreased and revenue generated from wireless access increased. The major source of increase in revenue generated from wireless access products was the Small Cell and microwave businesses. The management expects the scales of the Small Cell business will be further expanded over the next few years.

MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, with the launch of new product lines of the Group's satellite communications equipments including VSAT (Very Small Aperture Terminal) equipments, the management expects revenue from the wireless transmission business will gradually improve in the coming year.

Revenue from services declined 9.0% over the Prior Year to HK$2,174,409,000 during the Current Year (2015: HK$2,388,691,000), accounting for 36.5% (2015: 35.3%) of the Group's revenue. In view of the improving wireless solutions market, the evolving digital economy and business innovation, the management expects that the revenue from services will show a steady upward trend. Meanwhile, the Group continues to develop new businesses, seek pilot breakthroughs and marketing of industry applications, while developing its traditional businesses. The management expects that these efforts together should bring a new source of profit growth, and continuously enhance the competitiveness of the services sector.

GROSS PROFIT

During the Current Year, the Group's gross profit decreased by 9.7% over the Prior Year to HK$1,728,391,000 (2015: HK$1,914,490,000). The gross profit margin was 29.0% in the Current Year (2015: 28.3%), up by 0.7 percentage points compared to the Prior Year. The decrease in gross profit was mainly due to decreased revenue, which was partially offset by lower production costs as a result of the enhanced production systems of the Group. The improvement in gross profit margin was mainly due to higher efficiency via optimizing operation and manufacturing processes coupled with growing revenue contributions from some high-end products.

To further improve the gross profit margin, the Group will continue to optimize the product mix, implement stringent cost control measures and ramp up the scale of new products and new businesses in order to achieve greater economies of scale.

RESEARCH AND DEVELOPMENT ("R&D") COSTS

During the Current Year, R&D costs decreased by 1.4% over the Prior Year to HK$227,608,000 (2015: HK$230,916,000), representing 3.8% (2015: 3.4%) of the Group's revenue but the Group managed to keep the percentage of R&D costs to revenue at a reasonable level. With rapid evolution of mobile networks, the increase in R&D costs is essential to keep abreast of technological advances in the industry, foster innovation, enhance competitiveness and to capture more growth and business opportunities amidst the digitalization of the mobile telecommunications industry.

On top of its own R&D investments, the Group is looking for collaborations with other enterprises, and is striving to explore innovation to meet the needs of customers and expand new customer areas to create value for customers, while consolidating its existing market. Therefore, the Group has worked with certain well-known universities and research institutes, focusing on Smart City and Smart Home technologies. As the trend for enterprises to create new business models and revenue streams through the Internet-of-things ("IoT") shows no signs of abating, the Group is strengthening its R&D capabilities intending to drive more new revenue opportunities. Besides, the Group is also proactively investing in research and development of 5G technology and application.

Through its strong commitment to R&D, the Group has achieved significant accomplishments in creating its own solutions with proprietary intellectual property and has applied for more than 2,400 patents as at the end of the Current Year (As at 31 December 2015: approximately 2,100 patents).

SELLING AND DISTRIBUTION ("S&D") EXPENSES

During the Current Year, S&D expenses increased by 15% over the Prior Year to HK$544,071,000 (2015: HK$472,976,000), representing 9.1% (2015: 7.0%) of the Group's revenue. The increase in S&D expenses was mainly due to increased costs of the relevant sales, marketing and distribution staff resulting from more marketing activities. The Group will further boost business efficiency in order to maintain such expenses at an optimal level.

ADMINISTRATIVE EXPENSES

During the Current Year, administrative expenses decreased by 15.1% over the Prior Year to HK$709,647,000 (2015: HK$836,216,000), representing 11.9% (2015: 12.4%) of the Group's revenue. The decline in the administrative expenses during the Current Year was mainly due to an absence of substantial foreign exchange losses impact as compared to the Prior Year.

FINANCE COSTS

During the Current Year, finance costs decreased significantly by 30.5% over the Prior Year to HK$47,040,000 (2015: HK$67,722,000), representing 0.8% (2015: 1.0%) of the Group's revenue. The decrease in finance costs was mainly due to an improvement in the liquidity of the Group in the first half of the Current Year. In addition, bank borrowings of the Group have decreased over the Prior Year, resulting in a decrease in bank borrowing costs.

The management has constantly exercised prudence in managing credit risk and the level of bank borrowings as well as improving cash flow. To cope with the business growth, development expansion and R&D, the management has closely monitored the latest developments of the financing market and has arranged the most appropriate financing for the Group.

In addition, the management has utilized the advantages of interest and foreign exchange rate differentiation among different countries in order to minimize finance costs. As of 31 December 2016, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a healthy level of 15.3% compared to 14.3% as of 31 December 2015.

OPERATING PROFIT

During the Current Year, the operating profit of the Group decreased by 23.9% to HK$301,628,000 (2015: HK$396,540,000 (after deducting an exchange loss of HK$134,842,000)). The decrease in the operating profit was mainly attributable to the decrease in overall gross profit resulting from the decreased revenue and an impairment loss in trade receivables of certain overseas markets during the Current Year at HK$46,568,000 (2015: HK$16,848,000).

TAX

During the Current Year, the Group's overall taxation charge of HK$99,726,000 (2015: HK$109,755,000) comprised an income tax expense of HK$77,629,000 (2015: HK$115,530,000) and a deferred tax charge of HK$22,097,000 (2015: deferred tax credit of HK$5,775,000). The decrease in the overall taxation charge was mainly due to the decrease in operating profit of the Group.

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

NET PROFIT

During the Current Year, with the decline of operating profit of the Group, profit attributable to owners of the parent ("Net Profit") was HK$152,257,000 (2015: HK$212,876,000), representing a decrease of 28.5% compared to the Prior Year.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

In view of the Group's operating results for the Current Year and taking into consideration its long-term future development and the interests of shareholders of the Company, particularly those of minority shareholders, the board of directors of the Company (the "Board") proposes a final dividend for the Current Year of HK 0.8 cents (2015: HK 1.8 cents) per ordinary share. Together with the interim dividend of HK 1.5 cents (2015 interim: HK 1.5 cents) per ordinary share, the total dividend for the whole year may amount to HK 2.3 cents (2015: HK 3.3 cents) per ordinary share, and the total payout ratio, on the basis of basic earnings per share, is 36.9% (2015: 31.4%).

The relevant resolution(s) for approving the payment of the final dividend is to be proposed at the annual general meeting held on Wednesday, 31 May 2017 and if duly passed by shareholders, the dividend warrants are to be dispatched on Thursday, 15 June 2017.

PROSPECTS

Looking ahead to 2017, due to rising global economic uncertainties and a relatively weak global economic recovery, enterprises are more prudent in budgeting and capital expenditure. In view of the solid demand underpinned by the uninterrupted expansion of the subscriber base and evolution of the vibrant digital economy, the Group remains cautiously optimistic about the prospects of the mobile telecommunications industry which is relatively less susceptible to transitory uncertainties. Further, the Group will closely monitor market changes and adjust strategies in a timely manner.

As the development of mobile Internet, IoT, big data and cloud (fog) computing and the evolution of telecommunication system into the new ICT system, more companies are capitalizing on opportunities presented by these elements, speeding up the capital expenditure and upgrading the mobile networks so as to support a higher volume of mobile data traffic and enhance the competitiveness. The increasing proliferation of mobile data service plans has also boosted data consumption along with improving network coverage and capabilities. The Group believes that these positive trends were the basic drivers to industry growth and are conducive to the development of the mobile telecommunications industry.

The rapid development of mobile telecommunications will further accelerate the establishment of a 5G system characterized by high traffic, large number of access points and end-to-end low latency, which will profoundly change our lives.

PUBLIC NETWORK BUSINESS FOR OPERATORS

1. ANTENNA AND BASE STATION SUBSYSTEM

The Group has a long-established leading position in the antenna market. According to the latest global market research report published by EJL Wireless Research, an industry analyst firm, Comba Telecom has again been named as a "Tier 1 Supplier for Base Station Antennas" in the Current Year. Comba Telecom's delivery of base station antennas has been among the top three in the world since 2009, and it has been named as a global Tier 1 Supplier for five consecutive years since 2011. Meanwhile, the Group has won the first prize of the 2016 Science and Technology Awards in Guangdong Province by virtue of the "New Miniaturized Multi-system Shared Electricity Base Station Antenna System Product and Key Technology". This new Antenna is lighter in weight and smaller in size, marking another milestone of the Group's technological evolution.

In the meantime, the Group is allocating more resources to market other radio frequency ("RF") products besides base station antennas, such as point-of-interface ("POI") and some niche products. Riding on the brand reputation and successful experience in the base-station antennas sector, the management is confident that the Group can develop other product lines to fuel sustainable growth in the future.

Looking ahead, by virtue of in-depth customer insight, strong R&D capability, all-round services and, more importantly, high commitment to quality and excellence, the Group will develop the antenna and base station subsystem business segment with diligence and care, continue its R&D and innovation by proactively consolidating resources so as to expand and improve the business of the segment, and extend the Group's advantages to 5G technology. The Group is confident that it can maintain a strong position in spite of intensified market competition.

2. IN-BUILDING DISTRIBUTION SYSTEM SOLUTIONS

With the expanding mobile data traffic brought by the mobile internet, mobile networks have increasingly reached their capacity limits at hotspots, thus creating abundant opportunities in the areas of capacity expansion and construction of network access. The data and data traffic consumption of mobile internet mostly occurs in buildings, so the enhancement of in-building coverage and access to high-capacity network is increasingly important in later period of network build-outs.

Over the past year, the Group's wireless access products business represented by the Small Cell series has recorded double growth. After years of R & D and technological innovation, over the past year, the Group has won several tenders in a number of provinces and cities for our Small Cell products which were jointly developed by the group and the domestic well-known research Institute. In the meantime, the Group has also launched several in-building distribution system solutions including Small Cell based Innovative Indoor Coverage System, MDAS (Multi-Service Fiber Optic Distributed Access System) and DAS (Distributed Antenna System), among others.

The in-building construction is accelerating with the completion of 4G coverage construction by large domestic operators. In 2017, the Group is leveraging its advantages of new in-building distribution systems to grasp opportunities arising from construction of in-building distribution system domestically, so as to gain market share, accelerate the penetration of Small Cell products and enhance product performance in line with the rapid evolution of mobile networks. The Group believes that the product will be widely used in the coverage areas of mobile networks in the future.

In-building is a main scenario of mobile Internet applications. The Group is to proactively invest in 5G technology and application, and extend its technological advantages to 5G. The development of Software Defined Network (SDN) and Network Function Virtualization (NFV) technologies should enable the Company to better adapt to diversified ICT applications and services. We believe that this expansion presents new development opportunities for the Group, thus we will continue to strengthen our existing advantages in the future to accelerate our own expansion and development.

MANAGEMENT DISCUSSION AND ANALYSIS

Enterprise Network Construction and Information Service

Another major trend in the telecommunications market is to focus on specialized networks and regionalization, thus the Group has set specialized enterprise networks as its new direction. With a determined focus, the Group intends to grasp the social and industry development trends to develop integrated information, communications and intelligent solutions, so as to enhance ICT application service capacity for specialized network customers.

Over the past year, the Group has made great progress in the railway communication business and won several railway projects in many cities, which laid a solid foundation for its railway business breakthrough and the businesses in other industries.

In the meantime, the Group has entered into the maritime VSAT (Very Small Aperture Terminal) communication and internet-of-vessels businesses, i.e. maritime vessel-to-vessel and vessel-to-shore communications business and connection services, to provide solutions to such marine industry customers as large cruise ships, fishing and cargo vessels.

With ever-widening commercial applications tapping satellite capabilities, and the emergence of more affordable satellite communications solutions due to technology advances, the use of satellites for wireless transmission is gaining popularity. Therefore, the Group is taking a stepwise approach to add a new dimension to its product portfolio by offering new self-developed satellite solutions, and strives to gain market share within this high-end field utilizing its global R&D resources backed by its strong domestic manufacturing capabilities.

Meanwhile, the Group has also fully developed the integration of its information and communication technology (ICT) business by integrating information and communication based on the requirements from the government and enterprises customers, so as to continuously improve its capabilities of providing ICT application service for enterprises customers. The Group anticipated that the ICT business would become a major growth driver for the future development.

Demand for informatization services by specialized network customers is increasingly growing with more personalized, customized, and agile requirements. Traditional networks have a long opening cycle and cannot be customized. In view of these increasingly prominent contradictions, the group expected to grasp the opportunities among digital transformation, digital interconnect, industry interconnect, intelligent communication and intelligent manufacturing, among others.

Looking ahead, the Group will provide a variety of “tailor-made” solutions to customers and provide convenient, intelligent and secure services for more specialized enterprise customers so as to satisfy the targeting or particular demands from various industries and enterprises in the future.

International Business

The Group operates in China, North and South America, Europe, the Middle East and Southeast Asia and other regions around the world. The Group will strengthen its strategic partnership with the leading global network providers and work closely with them to develop products that support 5G networks to satisfy the demand from customers generated by industrial transformation and upgrade. The Group believes that the strategic cooperation will substantially enhance its global development and will further strengthen its growth and position in the international market.

Organizational Reform Achieving Inclusive Excellence

In today's fast-moving environment, change is unavoidable, particularly in the mobile telecommunications industry. Organizations need to be innovative in their business and articulate new strategies to successfully grow with the times as well as to cope with the increasingly challenging environment. In addition to the above new strategies, new products and technologies or new businesses, talent is also the key in the winning formula enabling the organization to drive towards its strategic goals. To that end, the Group has been implementing a progressive structural transformation aiming to promote alignment among diverse units of business and functional departments within its organization, thereby maximizing its overall effectiveness. In the meantime, the Group has made gradual enhancement across a wide spectrum of operating areas, such as project and quality management, policy enforcement, production enhancement, budget control and financial liquidity, among others so as to continuously drive greater business innovation, improve operational effectiveness and management excellence.

CONCLUSION

Over the years, adhering to the principle of pragmatic innovation and with the overall business objective of "Exploring Opportunities, Creating Value, Reforming Mechanism, Enhancing Efficiency", the Group is committed to exploring the needs for innovation of its customers and expanding new customer areas in order to create value for customers. Despite possible market uncertainties in the future, the Group will continue to focus on enhancement of management quality, and continue to improve and optimize operations, striving to build a brighter future for society through executing the strategies above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 31 December 2016, the Group had net current assets of HK$2,712,714,000. Current assets comprised inventories of HK$1,357,700,000, trade receivables of HK$3,842,680,000, notes receivable of HK$46,919,000, prepayments, deposits and other receivables of HK$641,440,000, restricted bank deposits of HK$178,230,000, and cash and cash equivalents of HK$1,420,214,000. Current liabilities comprised trade and bills payables of HK$2,893,459,000, other payables and accruals of HK$1,105,620,000, interest-bearing bank borrowings of HK$693,660,000, tax payable of HK$11,159,000 and provisions for product warranties of HK$70,571,000.

MANAGEMENT DISCUSSION AND ANALYSIS

The average receivable turnover for the Current Year was 239 days compared to 225 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. Those retention money are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Year was 266 days compared to 251 days for the Prior Year. The average inventory turnover for the Current Year was 133 days compared to 149 days for the Prior Year.

As at 31 December 2016, the Group's cash and bank balances were mainly denominated in RMB, HK$ and US$ while the Group's bank borrowings were mainly denominated in RMB, HK$ and US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into 3-year term loan facility agreements with certain financial institutions. Details are set out in note 28 to the financial statements.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. In view of the devaluation of the RMB in the Current Year and the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 31 December 2016, the Group has not engaged in hedging activities for managing RMB exchange rate risk.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings) over total assets, was 15.3% as at 31 December 2016 (31 December 2015: 14.3%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

RESTRICTED BANK DEPOSITS

Deposit balances of HK$207,398,000 (31 December 2015: HK$271,301,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had contingent liabilities of HK$209,426,000 (31 December 2015: HK$177,277,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had approximately 7,000 staff (31 December 2015: 8,400 staff). The total staff costs, excluding capitalized development cost, for the Current Year were HK$1,138,982,000 (31 December 2015: HK$1,124,656,000). 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 Mainland China 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. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management of the Group.

On 30 December 2016, a subsidiary of the Company adopted an employees incentive scheme for the purpose of recognizing the contributions of its certain employees and persons.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Fok Tung Ling (霍東齡), aged 60, 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 (北京郵電學院) (currently known as Beijing University of Posts and Telecommunications (北京郵電大學)), majoring in microwave communications. Prior to 1991, Mr. Fok worked as a marketing executive in China National Electronics Import & Export Corporation, South China Branch (中國電子進出口總公司華南分公司) 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 35 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.

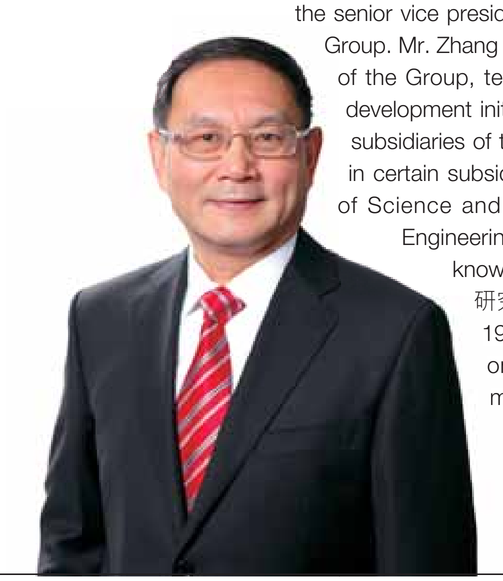
Mr. Zhang Yue Jun (張躍軍), aged 58, is one of the founders of the Group. He is the vice chairman of the Board and president of the Group. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. 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 (華南工學院) (currently known as South China University of Technology (華南理工大學)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997, he was the deputy chief engineer of a joint venture company in Shenzhen and was mainly responsible for wireless telecommunications projects. Mr. Zhang has over 34 years of experience in wireless communications and he co-founded the Group in 1997. He is the sole director and shareholder of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zheng Guo Bao (鄭國寶), aged 51, is an 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. (currently known as Filtronic Signal Solutions 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 30 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 44, is an 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 director 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 Commscope Inc. 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 received the Young Industrialist Awards of Hong Kong 2016. Mr. Yeung holds a master of science degree in engineering from University of California at Berkeley USA and a bachelor of science degree in electrical engineering from Purdue University, the USA. He has over 21 years of experience in the telecom industry. Mr. Yeung joined the Group in 2004.

DIRECTORS AND SENIOR MANAGEMENT



Mr. Zhang Yuan Jian (張遠見), aged 59, is an executive director of the Company. He is also the senior vice president of the Group and the director of the Research Institute of the Group. Mr. Zhang is in charge of the products and research and development system of the Group, technical research of the Research Institute of the Group and the development initiative of new product lines. 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. Zhang graduated from the University of Science and Technology of China (中國科學技術大學) and the Electronic Engineering Research Center of Nanjing (南京電子工程研究中心) (currently known as the Nanjing Institute of Electronic Technology (南京電子技術研究所)) and obtained a master's degree in microwave technology in 1984. He has over 33 years of experience in the technical research on wireless communications, product development and relevant management. Mr. Zhang joined the Group in 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Cai (劉彩), aged 76, is an independent non-executive director of the Company. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company. 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 (郵電部) and the Ministry of Information Industry (信息產業部) 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 of the former Ministry of Post and Telecommunications (郵電部郵電科學研究院) (currently known as China Academy of Information and Communications Technology (中國信息通信研究院)) after graduating from Beijing Institute of Posts and Telecommunications (北京郵電學院) (currently known as Beijing University of Posts and Telecommunications (北京郵電大學)). Mr. Liu had also been an independent director of China United Network Communications Limited, with its A shares listed on the Shanghai Stock Exchange, until his general retirement on 11 May 2016. He joined the Group in 2003.

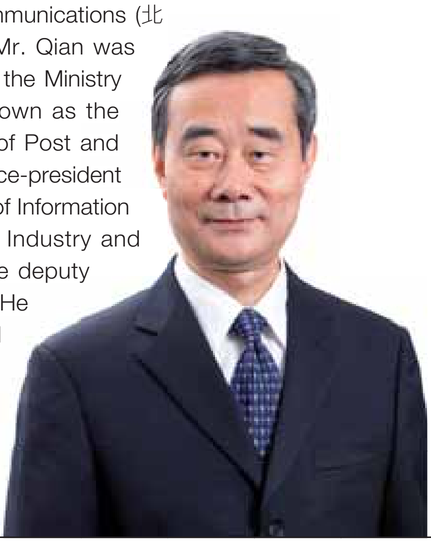
DIRECTORS AND SENIOR MANAGEMENT

Mr. Lau Siu Ki, Kevin (劉紹基), aged 58, is an independent non-executive director of the Company. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Lau has over 35 years of experience in corporate 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 five other companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") namely China Medical & HealthCare Group Limited (formerly known as COL Capital Limited), FIH Mobile Limited, Samson Holding Ltd., Embry Holdings Limited and Binhai Investment Company Limited. In addition, he was also an independent non-executive director of UKF (Holdings) Limited, a company listed on the main board of the Stock Exchange, until his resignation on 15 March 2016 and an independent non-executive director of TCL Communication Technology Holdings Limited, a company listed on the main board of the Stock Exchange, until it was privatized on 30 September 2016. Mr. Lau is also an independent supervisor of the sixth session of the supervisory committee of Beijing Capital International Airport Co., Ltd., the shares of which are listed on the main board of the Stock Exchange. He is also the company secretary of Yeebo (International Holdings) Limited and Hung Fook Tong Group Holdings Limited, both companies listed on the main board of the Stock Exchange, and has been appointed as the company secretary of Expert Systems Holdings Limited, a company listed on the growth enterprise market of the Stock Exchange, on 12 April 2016. Mr. Lau joined the Group in 2003.

Dr. Lin Jin Tong (林金桐), aged 71, is an 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 had been an independent director of Bright Oceans Inter-Telecom Corporation, the shares of which are listed on the Shanghai Stock Exchange, until his retirement in September 2015. Dr. Lin had also been an independent director of Jiangsu Tongguang Electronic Wire and Cable Co., Ltd, the shares of which are listed on the Shenzhen Stock Exchange, until his general retirement on 11 November 2014. Dr. Lin has been appointed as director of Jiangsu Zhongtian Technology Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange, on 11 August 2016. He joined the Group in 2012.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Qian Ting Shuo (錢庭碩), aged 68, is an 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 (工業和信息化部). 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 (郵電部) of the PRC (later known as the Telecommunications Planning Research Institute of the Ministry of Post and Telecommunications (郵電部電信規劃研究院)), and was also the vice-president of China Academy of Telecommunication Research of the Ministry of Information Industry (信息產業部) ("MII", currently known as the Ministry of Industry and Information Technology (工業和信息化部)), 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.



DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chang Fei Fu (張飛虎), aged 42, group CFO. He also holds various positions in the subsidiaries of the Company. Mr. Chang is mainly responsible for the overall financial management of the Group, as well as listed company related matters and investor relations duties. Mr. Chang graduated from Stanford University, the USA with a master degree in engineering economic systems and the University of Michigan, the USA with a bachelor degree in electrical engineering. He has over 20 years of experience in corporate finance, merger and acquisition, financial analysis, research, capital markets and asset management. Prior to joining the Company, Mr. Chang has worked in financial institutions and corporates in Hong Kong, China and Japan, including the Hong Kong Stock Exchange, Bank of America Merrill Lynch (Hong Kong and Tokyo), Rockhampton Management (Tokyo), Barclays Capital (Hong Kong). During 2011, Mr. Chang joined China Mobile Games and Entertainment Group Limited ("CMGE") in the founding member team as an executive director and chief financial officer. He led CMGE to its listing on the United States NASDAQ in September 2012, conducted a series of equity fund raisings including the IPO, as well as its privatization. Mr. Chang left CMGE in August 2015 after the company completed its privatisation. Mr. Chang then joined ule.com (an e-commerce platform jointly launched by TOM Group and China Post), as a senior vice president in finance in September 2015. He joined the Group in 2016.

Mr. Bu Bin Long (卜斌龍), aged 54, senior vice president of the Group and rotating head of the group management committee and chief scientist of antenna and subsystem business unit (ASBU) in charge of the group management committee and ASBU. He 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 from Xidian University in 2002. Mr. Bu has over 31 years of technical research experience in the domain of satellite antennas and mobile communications antennas. Mr. Bu was appointed as an adjunct professor of the key laboratory for antenna and electromagnetic compatibility of Xidian University in 2010, and elected as the vice chairman of the communication antenna special committee of the Antenna Branch of Chinese Institute of Electronics in 2011. He joined the Group in 2003.

Mr. Chen Sui Yang (陳遂陽), aged 53, senior vice president of the Group. Mr. Chen is mainly responsible for the operational management of the procurement center, group logistics center and public products delivery center of the Group. Mr. Chen was in charge of the research and development and operational management of the Group's wireless enhancement products. He graduated from the Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學)) and obtained a bachelor's degree in antenna technology in 1985. He has also obtained an MBA degree in China Europe International Business School (CEIBS) (中歐國際工商學院). Mr. Chen has over 31 years of experience in technology research and operational management of wireless communications. He joined the Group in 1998.

Mr. Luo Rui Bo (駱瑞波), aged 42, vice president and general manager of human resource center of the Group. Mr. Luo is responsible for the Group's human resource management. He graduated from Kunming University of Science and Technology (昆明理工大學) in 1998 and obtained a bachelor's degree in engineering, and obtained an MBA degree in Sun Yat-Sen University (中山大學) in 2009. Mr. Luo has over 19 years of experience in human resource management and operational management of large enterprises. He joined the Group in 2005.

Mr. Du Feng (杜峰), aged 51, vice president and general manager of the global service business unit of the Group. He is a national wireless engineer, and was a cadre at deputy regiment commander level before demobilization with rank of lieutenant-colonel. Mr. Du is responsible for the construction, market operation and management of the Group's service business platform. He completed his undergraduate studies at the Second Artillery Engineering University (第二炮兵工程學院) in 1997. Mr. Du has 18 years of experience in army administration and technical management, and 16 years of experience in market operation and branch office operational management in communications industries. He joined the Group in 2004.

Mr. Wu Tie Long (吳鐵龍), aged 53, vice president and general manager of the marketing center of the Group. Mr. Wu is responsible for the operation and management of the Group's sales platform in the PRC. 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 13 years of experience in the operation and management in the market of communications. He joined the Group in 2003.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Li Yu Wen (李宇雯), aged 46, vice president of the Group and controller of the treasury management center. Ms. Li is responsible for the business operation and management of the Group's process and IT management center, and the daily management of the Group's treasury management center. She graduated from the Yunnan University (雲南大學) in 1992 and obtained a bachelor's degree in physics. She also obtained an EMBA degree from Tsinghua University School of Economics and Management (清華大學經濟管理學院) in 2006. Ms. Li has over 24 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. Zhang Jin Yu, Charles (張金玉), aged 53, vice president of the Group and director of the operational management office, he is fully responsible for the daily management of the operational management office. 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 26 years of experience in accounting and financial management. He joined the Group in 2004.

Mr. Chen Jian Bin (陳劍斌), aged 43, vice president and general manager of the public network business unit of the Group. Mr. Chen is responsible for the construction, market operation and management of the Group's public network platform. He graduated from Beijing University of Posts and Telecommunications (北京郵電大學) and obtained a bachelor's degree in engineering in 1996. Mr. Chen has nearly 21 years of experience in operation and management in the market of communications. He joined the Group in 1998.

Mr. Li Xue Feng (李學鋒), aged 44, vice president and general manager of the audit and legal center of the Group. Mr. Li is responsible for the management of the audit, legal affairs, risk management and control and intellectual property rights of the Group. He is an individual member of the Chinese Institute of Certified Public Accountants, a Certified Internal Auditor and a CPA. He graduated from Northeast Forestry University (東北林業大學) majoring in accounting with a bachelor's degree in economics, and obtained a MBA degree from Royal Roads University. Mr. Li has over 20 years of experience in finance and internal audit from domestic and international companies. He joined the Group in 2010.

Mr. Sun Shan Qiu (孫善球), aged 37, general manager of the Group's antenna and subsystem business unit. He graduated from University of Electronic Science and Technology of China (電子科技大學) and obtained a bachelor's degree in electronic magnetic field and microwave technology in 2002 and obtained an EMBA degree from Beijing University of Posts and Telecommunications (北京郵電大學) in 2016. Mr. Sun has over 14 years of experience in the industry of base station antenna. In addition, he has a wide range of experience in the research and development, market and operation management. He joined the Group in 2002.

Mr. Deng Shi Qun (鄧世群), aged 35, general manager of the Group's wireless access business unit. Mr. Deng is responsible for the management of the research and development of wireless access products and the market expanding of newly launched products of the Group. 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 and development experience in the domain of wireless communications technology and computer networking technology. He joined the Group in 2005.

Mr. Luo Man Jiang (羅漫江), aged 38, general manager of the Group's wireless enhancement products business unit. Mr. Luo is responsible for the management of the research and development of wireless enhancement products and the market expanding of newly launched products of the Group. He graduated from Xidian University (西安電子科技大學) and obtained a master's degree in circuits and systems in 2004. Mr. Luo has a wide range of experience in the technical research, product development and management of wireless communications. He joined the Group in 2004.

Ms. Qiu Cai Xia (邱彩霞), aged 38, general manager of the enterprise network marketing center of the Group. Ms. Qiu is responsible for the market operation and management of the Group's enterprise network business. She graduated from People's Public Security University of China (中國人民公安大學) in 2001 and obtained a bachelor's degree in law, and obtained an EMBA degree from Beijing University of Posts and Telecommunications (北京郵電大學) in 2014. Ms. Qiu has a wide range of experience in the technical marketing and business development. She joined the Group in 2001.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Jian Feng (張劍鋒), aged 41, deputy director of the financial sharing center (PRC) of the Group. Mr. Zhang is responsible for the daily management of the financial sharing center of the Group 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 18 years of experience in accounting and financial management in communications industries. He joined the Group in 2005.

Mr. Augustin Ping Chang (張平), aged 54, 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 30 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. Johan Patrik Westfalk, aged 45, managing director of the Group's international branch in Caribbean & Latin America with headquarters in São Paulo, Brazil. Mr. Westfalk is responsible for all operations throughout the Latin American countries, including Brazil, 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 20 years of experience in the telecommunication industry and over 16 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Ms. Ma Jing (馬靜), aged 34, 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 55, technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the Group's research and product development works concerning microwave RF passive accessories. He graduated from Xidian University (西安電子科技大學), majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in the theory and design and research of microwave RF accessories for many years. Mr. Di also has wide experience in product development of microwave RF passive accessories. He is now a senior member of IEEE. He joined the Group in 2004.

Ms. Carol Ka Ye (葉卡), aged 50, vice president of global business expansion and deputy general manager of antenna and subsystem business unit (ASBU). Ms. Ye is responsible for developing and expanding the global major accounts business as well as the market strategy for ASBU product lines while identifying new business models and new markets for the Group's international operations. She graduated from National University of Singapore with the master degree of Electronic Engineering, and specialized in Microwave and Antenna design. Ms. Ye has more than 20 years of wide arrange of working experiences in product management, business development and network planning in Telecommunication and Wireless industry. She joined the Group in 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Siu Man, Barry (陳少文), aged 48, deputy financial controller of treasury management (overseas) of the Group, also the company secretary and the authorized representative of the Company. Mr. Chan is responsible for treasury management and company secretarial functions of Hong Kong and overseas companies. He graduated from Hong Kong Polytechnic University with a bachelor of arts (honours) in accountancy in 1991 and obtained a master degree in business administration from University of Southern Queensland in 2000. He is also a full member of The Hong Kong Institute of Certified Public Accountants since 1996 and a fellow member of The Association of Chartered Certified Accountants since 2000. He has over 20 years of experience in accounting, treasury and financial management in various organizations. He joined the Group in 2015.

Mr. Wang Liang (王梁), aged 36, 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 12 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 42, general manager of procurement center of the Group. Mr. Chen is responsible for the daily management of the Group's procurement center. He graduated from Shanghai University (上海大學) in 1998, majoring in communications and information engineering, and obtained an EMBA degree in Beijing University of Posts and Telecommunications (北京郵電大學) in 2014. Mr. Chen has 19 years of experience in the technical research, product development and corporate management in the wireless communications area. He joined the Group in 1998.

Mr. Xu Chuan Min (徐傳民), aged 38, director of the public products delivery center of the Group. Mr. Xu is responsible for the production management of the Group's wireless enhancement, wireless access and wireless transmission related products and the introduction of new products. He completed the higher diploma studies in Shandong University (山東大學) in 2002, completed the undergraduate studies in Shandong University in 2008, graduated from Huazhong University of Science and Technology (華中科技大學) with MBA in 2013 and obtained an MBA degree. Mr. Xu has 14 years of experience in the production, operation and management in communications industries. He joined the Group in 2002.

Ms. Ip Wai Ki Vicky (Victoria) (葉慧琪(葉莚喬)), aged 38, deputy director of group human resources center & director of international human resources. Ms. Ip is responsible for overall human resources of the Group's headquarter in Hong Kong and in charge of all functions human resources management for Comba Telecom international organization and also for the R&D center in USA under the Group's central research institute. She is graduated from University of Leicester in England with a master degree with merit in business administration and Brock University in Canada with a bachelor degree of arts in economics. Ms. Ip has over 15 years extensive experience in human resources, administration and operations management particularly in organizational restructuring & development, HR transformation, staffing, change management, executive search, compensation & benefits, HR Business Partnering, HR strategy & implementation, talent acquisition & management, stakeholder engagement, employee relations, performance management, leadership development, global HR and cultural receptive fine-tuned in all her regional roles across North America, Europe, Middle East and Asia Pacific. Ms. Ip was the Associate Director, Human Resources APAC & HK Office General Manager of Hanergy Holding Group & Hanergy Thin Film Power Limited before joining the Group. She joined the Group in 2016.

CORPORATE GOVERNANCE REPORT

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

The board (the "Board") of directors of the Company 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 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered that, from 1 January 2016 to the date of this annual report, the Company has complied with all Code Provisions. The key corporate governance principles and practices of the Company are summarized as follows:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities transactions of the Company by its directors (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 from 1 January 2016 to the date of this annual report.

BOARD OF DIRECTORS

BOARD COMPOSITION

As at the date of this annual report, the Board comprises 9 Directors, of whom 5 are executive Directors and 4 are independent non-executive Directors. Mr. Lau Siu Ki, Kevin, an independent non-executive Director, 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.

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

BOARD MEETINGS

For the year ended 31 December 2016 (the "Current Year"), there were 11 board meetings, an annual general meeting and an extraordinary general meeting held by the Company and attendance of each Director at the board meetings and the general meetings (either in person or by telephone conference) is set out as follows:

Name of Directors	Number of board meetings attended/ Total number of board meetings held	Number of general meetings attended/ Total number of general meetings held
Executive Directors:		
Mr. Fok Tung Ling *(Chairman)*	11/11	2/2
Mr. Zhang Yue Jun *(Vice Chairman & President)*	11/11	2/2
Mr. Zheng Guo Bao	11/11	1/2
Mr. Yeung Pui Sang, Simon	11/11	2/2
Mr. Zhang Yuan Jian	11/11	2/2
Dr. Tong Chak Wai, Wilson(Note 1)	5/5	1/1
Independent non-executive Directors:		
Mr. Liu Cai	10/11	2/2
Mr. Lau Siu Ki, Kevin	11/11	2/2
Dr. Lin Jin Tong	11/11	2/2
Mr. Qian Ting Shuo	11/11	2/2

Note:

(1) Dr. Tong Chak Wai, Wilson resigned as executive Director on 6 June 2016. During the period from 1 January 2016 to 5 June 2016, the Company convened 5 Board meetings in total and an annual general meeting.

BOARD FUNCTIONS

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

The Board is also responsible for performing the corporate governance duties under the terms of reference in Code Provision D.3.1. During the Current Year, the Board reviewed the Company's policies and practices on corporate governance; reviewed and monitored the training and continuous professional development of Directors and senior management of the Group; reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; and reviewed and monitored the compliance with the Code Provisions and approved the disclosure in the corporate governance report contained in the Company's 2015 annual 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 risk management and internal control procedures; and ensuring compliance with relevant statutory requirements and other rules and regulations.

CORPORATE GOVERNANCE REPORT

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

All current Directors, namely Mr. Fok Tung Ling, Mr. Zhang Yue Jun, Mr. Zheng Guo Bao, Mr. Yeung Pui Sang, Simon, Mr. Zhang Yuan Jian, Mr. Liu Cai, Mr. Lau Siu Ki, Kevin, Dr. Lin Jin Tong and Mr. Qian Ting Shuo attended training sessions organized by the Company or other professional institutions during the Current Year and have provided records of the training they received to the Company.

COMPANY SECRETARY

Mr. Chan Siu Man, the company secretary of the Company (the "Company Secretary"), 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 acting as chief executive is responsible for the Group's overall operation, management, business development, research and development of new technologies and products and supply chain system.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

Remuneration committee of the Company (the "Remuneration Committee") comprises 4 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 of the Group; to review and recommend to the Board on the remuneration packages and any compensation arrangements made to the Directors and senior management of the Group; and to review the terms of service contracts of Directors.

During the Current Year, there were 2 Remuneration Committee meetings held to, inter alia, discuss the remuneration packages of all Directors and senior management of the Group and the grant of share options to Directors and senior management of the Group and recommend to the Board. The remuneration of the Directors are subject to the Shareholders' approval at general 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 of the Group by band for the Current Year is set out as follows:

Remuneration bands (HK$)	Number of person(s)
Nil to 1,000,000	9
1,000,001 to 2,000,000	8
2,000,001 to 3,000,000	3
3,000,001 to 4,000,000	4
Over 4,000,000	1

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

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

NOMINATION COMMITTEE

Nomination committee of the Company (the "Nomination Committee") comprises 4 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 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 3 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; review the implementation and effectiveness of the board diversity policy; and discuss the appointment of senior management of the Group and recommend to the Board.

ASSESSMENT OF INDEPENDENCE

In assessing the independence of non-executive Directors, 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 each of Messrs. Liu Cai and Lau Siu Ki, Kevin has served the Company as independent non-executive Directors for more than nine years, they do not have any management role in the Company. In view that Mr. Liu Cai has extensive experience in telecommunications industry and Mr. Lau Siu Ki, Kevin has 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 tenure 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 recognizes the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All appointments of the Board will be based on meritocracy with due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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

Members of Nomination Committee	Number of meetings attended/ Total number of meetings held
Mr. Liu Cai	2/3
Mr. Lau Siu Ki, Kevin	3/3
Dr. Lin Jin Tong	3/3
Mr. Qian Ting Shuo	3/3

AUDIT COMMITTEE

Audit committee of the Company (the "Audit Committee") comprises 4 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, risk management and internal control systems, the scope and nature of the external audit and matters concerning the engagement of external auditor.

During the Current Year, there were 2 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 Group's accounting, internal audit and financial reporting functions, risk management and internal control systems, the effectiveness of risk management and internal audit function and related issues.

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

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

AUDITOR'S REMUNERATION

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

During the Current Year, the fees paid to the auditor for audit services amounted to HK$3,768,000; and non-audit services of tax review and other professional services amounted to HK$463,000 and HK$2,222,000 respectively.

DIRECTORS' AND AUDITOR'S 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 the responsibility of the preparation of the financial statements of the Group.

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

A statement from the auditor of the Company regarding their reporting responsibilities on the financial statements of the Company is set out in the section "Independent Auditor's Report" on pages 56 to 59 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is accountable for overseeing the Group's risk management and internal control systems on an ongoing basis, and assumes the responsibility for reviewing the effectiveness of such systems at least annually. Therefore, the Board has in place an internal audit department, and established a risk management department during the Current Year offering assistance to the Board and the Audit Committee to ensure that sound risk management and internal control systems have been maintained within the Group in compliance with requirements in the Code Provisions.

The Group's risk management is fully integrated into its daily operations, and there is clear system and reasonable segregation of duties for each aspect of business. It continues to optimize procedures and reinforce management in a systematic manner for more efficient business operations and proper and timely information communication so that risks can be effectively monitored.

The Group has established various professional committees to monitor significant risks, among which, the Strategic Decision Committee, comprised of the Technology Strategic Development Committee, the Operation Management Committee and the Procurement Management Committee, is responsible for the review and discussion of each significant risk issue of the Company by way of resolutions. The Group's functional departments assist all professional committees in identifying, evaluating and managing all financial, operational and compliance risks associated with the Company, and keep effective communications with professional committees through regular reporting and meetings etc.

The Group had evaluated and responded actively to all significant risks during the Current Year, including, among others, strategy selection risk, significant investment risk, interests and exchange risk, account receivable risk and process management risk, optimized organizational structure and roles division, determined effective control procedures and raised practicable solutions.

CORPORATE GOVERNANCE REPORT

During the Current Year, the Group established a risk management department, which has been conducting systematic integration and optimization on the Group's risk management step by step in order to form a comprehensive risk management system and improve risk management process, in addition to a change of mechanism to better adapt to the new environment and constantly improve the Group's capability in risk prevention and opportunity identification.

As required under the Listing Rules and the Securities and Futures Ordinance, and with reference to the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission, the Group established the Policy on Disclosure of Inside Information, which sets out the procedures for the handling and dissemination of inside information and measures to be taken in relation to internal controls, including clarifying the definition of inside information, announcement of inside information and confidentiality, duty of officers, restrictions on sharing non-public information, handling of rumours, third party announcements, reporting channels, penalty provisions and internal disciplinary procedures. During the Current Year, neither the Group nor any relevant person had involved in any regulatory measure enforced or penalty imposed by regulatory authority for suspected insider dealing.

The Board has delegated relevant departments of the Group to design and implement appropriate procedures to ensure the effective implementation of its risk management objective and policy. It reviews the effectiveness of procedures implemented and the reasonableness of risk management objective and policy through reports submitted by relevant departments. However, risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The internal audit department monitors the procedures and systems of the Group's risk management and internal control, 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. These areas 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 risk management and internal audit departments and reported semi-annually to the Board on such reviews. For the Current Year, the Board reviewed the effectiveness of the risk management and internal control systems within the Group and is satisfied that the risk management and internal control systems within the Group are effective and adequate.

SHAREHOLDERS' RIGHTS

PROCEDURES BY WHICH SHAREHOLDERS MAY CONVENE AN EXTRAORDINARY GENERAL MEETING

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

PROCEDURES FOR PUTTING FORWARD ENQUIRIES TO THE BOARD

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

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

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT A GENERAL MEETING

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

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

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

CHANGE IN THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY

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

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

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

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. SUMMARY AND SCOPE OF REPORT

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

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

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

Unless otherwise specified, this report mainly covers Comba Telecom's headquarter and R&D base in Guangzhou Science City, the manufacturing base in Guangzhou Development Zone, head office in Hong Kong and the main sales offices at home and abroad as their profit contributions to the Group are fairly representative and important.

II. COMMUNICATIONS WITH STAKEHOLDERS

We attach great importance to communication with all parties of the stakeholders by learning their varying expectations of the Company's environmental, social, governance and other aspects through a variety of different channels in a bid to enhance the Group's transparency and stakeholders' confidence in our promotion of sustainable development.

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

III. ENVIRONMENTAL PROTECTION AND RESOURCE UTILIZATION

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

(I) EMISSIONS

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

(II) RESOURCE UTILIZATION

The Group takes a careful consideration of environment factors throughout the life cycle of our products and services, to provide our products with the characteristics of energy and natural resource saving and non-pollution in each procedure of research and development, production, sale, transportation, utilization and abandonment, effectively manage the water consumption and waste water treatment of the company to reduce environment pollution, and actively promote the concept of water conservation to save water resources, reduce the utilization of hazardous and noxious substances in each procedure, proactively seek, develop and use new environmental technologies and materials and encourage recycling of all materials, while for resource and energy consumption, the Group promotes active application of energy-efficient products, equipment and techniques to reduce energy consumption.

(III) ENVIRONMENT AND NATURAL RESOURCES

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

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

IV. EMPLOYMENT AND LABOUR PRACTICES

(I) EMPLOYMENT

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

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

The Group had approximately 7,000 staffs in 2016, with male and female accounting for about 70% and 30%, respectively. We are committed to ensuring equal employment opportunities and protecting the rights of female employees. For employment policy, we eliminate gender discrimination and provide female employees with maternity leave according to local laws. Our employees are located primarily in the PRC with certain located in the other districts such as Europe and Southeast Asia.

(II) HEALTH AND SAFETY

In order to protect environmental and personal health and safety, pursue social benefits and ensure social interests, the Group established the OHSAS18001 Occupational Health and Safety System and SA8000 Social Responsibility System in 2007 and 2010 respectively, so as to protect employees' health and safety. Such systems are operated in combination with product quality control system to deliver our Group's commitment to the community and our employees.

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

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

2. Stepping up the efforts to improve environmental safety: We create a fine and safe working environment for our employees, provide them with comfortable accommodation, formulate the staff holiday system and the periodical medical check system, offer job skills training and establish a labour union. Besides, we also attach much value to staff care, health and safety as well as boosting their sense of belonging. With a lot of funds invested, apparatuses and equipment devoted, the Group keeps improving working environment and protects the personal safety and health of our employees. Also, our employees' safety awareness and self-defense capability can get strengthened through training.

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

(III) DEVELOPMENT AND TRAINING

We are committed to the career development of our employees and offer dual promotion paths for them, namely “promotion for management functions” and “promotion for technical expertise”. We implement a system that links our employees’ remuneration and promotion to their work experience, capabilities and performance, which incentivizes their proactivity.

We have been focusing on the cultivation of talents. On such basis, we advocate the talent concept of “promote the outstanding among flourishing talents” and establish an effective and systematic talent training system, which is designed to enhance our employees’ knowledge, capability and skills. In view of the Group’s demand for talents arising from its development goals, we ensure effective implementation of training from the five aspects of training regulation system, training program system, training instructor system, training material system and training operation system.

1. Orientation Training for New Employees

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

2. Professionalizing Training Camp for Undergraduates

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

3. Leadership Enhancement Training for Management

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

The College of Comba Leader Management (京信幹部管理學院) which was established in 2016 has initiated our systematic cultivation of management. It focuses on the combination of training and practice to comprehensively enhance the leaders' management capability through mechanisms including in-class training, action learning and instructor coaching.


4. **Construction of the Internal Lecturers Team**

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

5. **Comba Colorful Classes**

We specially set up the "Comba Colorful Classes (京彩課堂)", an online and offline learning platform, for all our staff, to create an active and strong atmosphere of trainings and satisfy their diversified demands for training. The "Comba Colorful Classes" are featured as our internal lecturers' branded courses, combined with the introduction of external general courses. Also, it integrates training into life and pays close attention to our employees' concerns.

(IV) LABOUR STANDARDS

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

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

We respect and protect our employees' right of freedom, including freedom to be employed, freedom to resign, freedom to work overtime and freedom of action, we also respect and protect their rights to freedom of association and collective bargaining.

V. OPERATION MANAGEMENT

(I) SUPPLY CHAIN MANAGEMENT

We have regulated the management of key processes of supply chain such as the placing of purchase order, the entering of contracts, product acceptance and the settlement by formulating proven purchase management system and establishing supplier acceptance, appraisal and exit mechanisms.

Corporate social responsibility is required to be regarded as one of the basic conditions and requirements in selecting and recognizing suppliers, who are required to carry out business based on the fact that they have complied with applicable laws and regulations and met the requirements under sustainable development. We have entered into Agreement of Corporate Social Responsibility (《企業社會責任協定》) with material suppliers to constraint their code of conduct on integrity and law abiding, human rights, labour standards, health and safety, environment, prohibited commercial transactions, which is a necessity to carry out supplier certification, audit and performance assessment.

The results of supplier performance assessment are utilized to supplier management to promote their sustained improvement. Supplier with poor grade in performance assessment is provided with respective training and coaching, so as to drive supplier to regard corporate social responsibility as a requirement of product during production, and integrate it into business decision making and daily operation, thus establishing effective management system.

(II) PRODUCT RESPONSIBILITY

By adhering to our corporate value and core culture, persistently seeking higher working quality and constantly promoting changes and innovation, we are committed to building our brand reputation featured with “excellent” and “value-for-money” products.

We have established an ISO9000 international quality control system and a TL9000 quality control system in telecommunication industry that have gained international accreditation, as well as an automatic product testing and reliability measurement system to secure our product quality and provide the customers with safe and reliable products and services.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

The Group has established a proven after-sale service system, the CRM customer relations management platform and multi-dimension complaint and feedback channels based on our WeChat public account, the 400 hotline and our website. All the complaints and feedbacks will be handled by classification and grading in accordance with process specifications to ensure customer satisfaction.

The Group has implemented the procedures to manage intellectual property rights, patents, trademarks, advertisements and publicity, in order that such relevant risks are reduced and intellectual property rights of others are respected. At the same time, the Group has set up a confidentiality management policy for strict protection of business secret of the company and customers.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Antenna testing platform

Microwave chamber for far-field measurement

(III) ANTI-CORRUPTION

In strict compliance with national laws and regulations and the Company's internal policies, the Group requires its employees abstaining from such misconducts as offering or accepting bribery, corruption, blackmail, fraud and money laundering in any circumstance. Any suspected criminal offence will be promptly whistle-blew and reported to judicial authorities.

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

VI. COMMUNITY INVESTMENT

Whilst accelerating its own development in a healthy and rapid manner, the Group is devoted to supporting social charity and proactively fulfills its social responsibilities and obligations. It has devoted many resources to public benefits activities, disaster relief, poverty alleviation, donations for school, staff care, the conveyance of condolence to the injured and disabled and other aspects. In 2016, the Group made a total donation of more than RMB1 million in social charity, poverty alleviation, the provision of financial assistance to poor students, social activities, etc.. Besides, the Group actively carried out blood donations, staff development trainings, social gatherings, recreational activities, sports events and other activities, thus contributing to the development of cultural and sports activities of the Group and the community.

Leveraging on our technical expertise, we have actively participated in emergency communications relief in major disasters and resumed communications in a timely manner to support rescue and relief efforts. For example, we joined in the communication repairing in the disaster areas suffered heavy rain in Chizhou, Anhui Province during the year.

By taking the polar expedition vessel "Xue Long", the Group's GSM-Femto technicians together with the 33rd Antarctic Expedition Team of China, embarked on a journey to the Antarctica. On this journey, we successfully improve the weak coverage of communication signals for the expedition team through information technology. Accordingly, the scientists and accompanying personnel are accessible to the excellent and convenient mobile communication network, thus laying a solid foundation for scientific works.

Overseas branches in the Group are committed to providing telecom system solutions for dozens of countries around the world, including the networks coverage solution for football stadium in the Rio Olympic Games, the networks coverage solution for the first subsea tunnel crossing Asia and Europe in Turkey, the LTE-A networks coverage solution for World Network Summit (全球網路峰會) in Lisbon, Portugal and other solutions, to solve weak networks coverage, delayed networks connections and other issues, so as to provide customers with excellent network experience service.

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2017

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 2016 (the "Current Year").

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Business review of the Group for the Current Year and a discussion on the Group's future business development and the principal risks and uncertainties facing the Group are set out in the Management Discussion and Analysis in this annual report. An analysis of the Group's performance during the Current Year using financial key performance indicators is set out in the 5 Year Financial Summary on page 146 of this annual report.

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

The Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

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

OPERATING SEGMENT INFORMATION

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

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2016 and the state of affairs of the Company and the Group as at 31 December 2016 are set out in the financial statements on pages 60 to 145 of this annual report.

As disclosed in the final results announcement for the Current Year of the Company dated 22 March 2017, the Directors recommended the payment of a final dividend of HK0.8 cents per ordinary share (2015: HK1.8 cents per ordinary share) payable on 15 June 2017 in respect of the Current Year to shareholders whose names appear on the register of members of the Company on 7 June 2017. Together with the interim dividend of HK1.5 cents per ordinary share (2015: HK1.5 cents per ordinary share) paid on 14 September 2016, the total dividends for the Current Year is HK2.3 cents per ordinary share (2015: HK3.3 cents per ordinary share).

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, is set out on page 146 of this annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS AND AWARDED SHARES

The Company has allotted and issued 203,376,682 and 223,726,347 new ordinary shares by way of bonus issue to the then qualifying shareholders on 14 June 2016 and 26 October 2016 respectively.

The Company has granted 70,000,000 share options, which will entitle holders thereof to subscribe for 70,000,000 shares (77,000,000 shares after adjustment as a result of the bonus issue of shares on 26 October 2016) to 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 30 and 31 to the financial statements.

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 of the Company.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$395,784,000, of which HK$19,688,000 has been proposed as a final dividend for the Current Year. In addition, the Company's share premium account, in the amount of HK$650,071,000, may be distributed, provided that immediately following the date on which the distribution or dividends proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the Current Year, sales to the Group's five largest customers accounted for approximately 81.8% of the total sales for the year and sales to the largest customer included therein accounted for approximately 29.5% 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 2016, to the best knowledge, information and belief of the Directors, none of the Directors or any of their close 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)*
Mr. Zheng Guo Bao ("Mr. Zheng")
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")
Mr. Zhang Yuan Jian
Dr. Tong Chak Wai, Wilson (resigned on 6 June 2016)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Liu Cai
Mr. Lau Siu Ki, Kevin
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. Zheng, Mr. Zhang Yuan Jian and Mr. Lau Siu Ki, Kevin will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company (the "AGM").

The Company has received annual confirmation of independence from each of Mr. Liu Cai, Mr. Lau Siu Ki, Kevin, Dr. Lin and Mr. Qian as at the date of this annual 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 19 to 27 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Fok and Mr. Zhang Yue Jun 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 exempt from the shareholders' approval requirement under rule 13.68 of the Listing Rules.

Mr. Zhang Yuan Jian has entered into a service contract with the Company for an initial term of three years which commenced on 10 February 2012 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 18 of this annual report.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the Loan Agreement, the Supplemental 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 other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, was a party, and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2016, 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 (the "Model Code") under the Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest				
Name of Directors	Notes	Directly beneficially owned	Through spouse	Through controlled corporation	Total	Percentage of the Company's issued share capital (Approximately)
Mr. Fok	(a)	27,794,537	–	782,164,931	809,959,468	32.91
Mr. Zhang Yue Jun	(b)	–	–	248,225,410	248,225,410	10.08
Mr. Zheng		5,471,184	–	–	5,471,184	0.22
Mr. Yeung		14,863,253	–	–	14,863,253	0.60
Mr. Zhang Yuan Jian		4,452,182	128,840	–	4,581,022	0.18

Long positions in share options of the Company:

Name of Directors	Number of share options directly beneficially owned
Mr. Fok	805,255
Mr. Zhang Yue Jun	805,255
Mr. Yeung	5,715,765
Mr. Zhang Yuan Jian	5,715,765
Mr. Liu Cai	271,051
Mr. Lau Siu Ki, Kevin	271,051
Dr. Lin	271,051
Mr. Qian	271,051

Notes:

(a) 780,095,129 shares and 2,069,802 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 782,164,931 shares owned by Prime Choice Investments Limited and Total Master Investments Limited under the SFO.

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

Save as aforesaid and save for Mr. Zheng beneficially holding 32% equity interest in WaveLab Holdings Limited ("WaveLab Holdings"), an indirect non wholly-owned subsidiary of the Company, as at 31 December 2016, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive of the Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

Details of the share option scheme and share award scheme of the Company are set out in note 31 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme and share award scheme in note 31 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 of the Company or their respective spouses or children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PENSION SCHEMES

Details of the pension schemes of the Group are set out in notes 2.4 and 6 to the financial statements, respectively under "Other Employee Benefits" on page 95 and "Employee benefit expense" on page 103 of this annual report, respectively.

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

As at 31 December 2016, the following substantial shareholders of the Company (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange as follows:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares and share options held	Percentage of the Company's issued share capital (Approximately)
Prime Choice Investments Limited		Beneficial owner	780,095,129	31.69
Madam Chen Jing Na	(a)	Interest of spouse	810,764,723	32.94
Wise Logic Investments Limited		Beneficial owner	248,225,410	10.08
Madam Cai Hui Ni	(b)	Interest of spouse	249,030,665	10.11

Notes:

(a) Madam Chen Jing Na is the spouse of Mr. Fok and is deemed to be interested in 809,959,468 shares and 805,255 share options in which Mr. Fok is interested or deemed to be interested for the purpose of the SFO.

(b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in 248,225,410 shares and 805,255 share options in which Mr. Zhang Yue Jun is interested or deemed to be interested for the purpose of the SFO.

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

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

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

Save as disclosed above, as at 31 December 2016, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into during the Current Year are set out in note 36 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 are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

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

CONNECTED TRANSACTIONS: LOAN

On 24 December 2013, Cascade Technology Limited, an indirect wholly-owned subsidiary of the Company ("Cascade Technology"), entered into with WaveLab Holdings a loan agreement (the "Loan Agreement") pursuant to which Cascade Technology agreed to lend a loan in principal amount of 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 annum during the period from 1 January 2014 to 31 December 2016.

On 30 September 2015, Cascade Technology entered into with WaveLab Holdings a supplemental agreement (the "Supplemental Agreement") to lower the interest rate of the loan under the Loan Agreement from LIBOR at the date of actual drawing plus 4.75% per annum to LIBOR at the date of actual drawing plus 4% per annum.

The purposes of the loan 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.

On 22 December 2016, 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 HK$39,000,000 to WaveLab Holdings at the rate of LIBOR at the date of actual drawing plus 3% per annum during the period from 1 January 2017 to 31 December 2019.

REPORT OF THE DIRECTORS

The purpose of the loan is used for the working capital of WaveLab Holdings and its subsidiaries. Cascade Technology may, at any time upon giving notice in writing, demand immediate repayment of 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 24 December 2013, 30 September 2015 and 22 December 2016.

CONTINUING CONNECTED TRANSACTIONS

On 24 December 2013, Comba Telecom Systems Investments Limited, a direct wholly-owned subsidiary of the Company ("Comba Systems BVI"), entered into with WaveLab Holdings: (i) an agreement (the "WTAP Agreement") for the procurement of wireless transmission and access products (including but not limited to digital microwave outdoor units, radio frequency units, block up convertors and such other products) used in connection with microwave transmission (the "WTAPs") and the relevant maintenance services from WaveLab Holdings to the Group (the "WTAP Transaction"); (ii) an agreement (the "WTAP-Components Agreement") for the supply of necessary components used in the manufacture of WTAPs by the Group to WaveLab Holdings (the "WTAP-Components Transaction"); 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 (the "IDU Services Transaction"), 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.

As set out in the announcement of the Company dated 24 December 2013, the annual caps for the WTAP Transaction, the WTAP-Components Transaction and the IDU Services Transaction for the year ended 31 December 2016 were HK$184,000,000, HK$1,000,000 and HK$3,800,000, respectively. The total consideration for the WTAP Transaction, the WTAP-Components Transaction and the IDU Services Transaction during the Current Year amounted to HK$54,326,000, HK$83,000 and HK$2,363,000, respectively which are within the annual caps of HK$184,000,000, HK$1,000,000 and HK$3,800,000, respectively.

On 22 December 2016, Comba Systems BVI entered into with WaveLab Holdings: (i) a new agreement (the "New WTAP Agreement") for the procurement of WTAPs and the relevant maintenance services from WaveLab Holdings to the Group; and (ii) a new agreement (the "New WTAP-Components Agreement") for the supply of the necessary components used in the manufacture of WTAPs and the provision of related services by the Group to WaveLab Holdings, each of which is for a term from 1 January 2017 to 31 December 2019 and is subject to the early termination provisions incidental therein.

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

For details, please refer to the announcements of the Company dated 24 December 2013 and 22 December 2016.

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

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

(ii) on normal commercial terms or better; and

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

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

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 (the "2015 Facility Agreement") with certain financial institutions with facility amount of US$200,000,000 entered into on 15 June 2015, which contain covenants requiring specific performance obligations of Mr. Fok, the controlling shareholder of the Company and Mr. Zhang Yue Jun, the substantial shareholder of the Company. During the Current Year, the loan balance under the 2015 Facility Agreement was fully repaid by making use of the Group's own fund and other loan facilities. Details of the 2015 Facility Agreement are set out in note 28 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, there is sufficient public float of more than 25% of the Company's total issued share capital as required under the Listing Rules as at 31 December 2016 and the date of this annual report.

EVENT AFTER THE REPORTING PERIOD

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

AUDITOR

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

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2017

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF COMBA TELECOM SYSTEMS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 60 to 145, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Inventories provision The Company is principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services. Since the technology develops rapidly in the telecommunications industry, the Group's inventories are subject to significant risk of obsolescence and significant management's judgements and estimates were involved in determining the provisions against obsolete and slow-moving inventories. We focused on this area because balances of inventories were significant to the Group (15% of total assets) and inventories provision was made based on subjective estimates and was influenced by assumptions concerning future consumption. The Group's disclosures about accounting judgements and estimates relating to and the recognition of inventories provision are included in notes 3 and 6 to the consolidated financial statements.	We evaluated the sales forecasts prepared by management for the purpose of identifying slow-moving and obsolete inventories by checking, on a sample basis, to the sales orders and agreements, and assessing the estimated sales by taking into account the accuracy of previous estimations, the historic evidence supporting underlying assumptions and current market conditions. We also tested on a sample basis the accuracy of the inventories aging report. For the net realizable value of obsolete and slow-moving inventories identified, we have checked a sample of recent sales invoices for the value.
Impairment of trade receivables Impairment of trade receivables was made based on the assessment of the recoverability of receivables due from customers. The identification of impairment requires management's judgements and estimates. Specific factors considered by management included the age of the balance, location of customers, existence of disputes, historical payment patterns and any other available information concerning the creditworthiness of counterparties. We focused on this area because it required a high level of management's judgement and the trade receivable balances were significant to the Group (43% of total assets). Details of the impairment of trade receivables are disclosed in note 3 (significant accounting judgements and estimates) and note 22 (trade receivables) to the consolidated financial statements.	We evaluated management's assessment on impairment of trade receivables by checking, on a sample basis, the aging analysis and settlements made subsequent to the year-end date. For long-aged receivables, we have assessed the Group's provision by considering historical payment patterns, available information concerning the creditworthiness of the customers and any correspondence with customers on expected settlement dates which we sample tested the settlements for proper execution of such repayment schedules. For balances where a provision for impairment was recognized, we understood the rationale behind management's judgement, considering historical patterns of trading and settlement as well as recent communications with the counterparties.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	5	**5,954,328**	6,770,894
Cost of sales		**(4,225,937)**	(4,856,404)
Gross profit		**1,728,391**	1,914,490
Other income and gains	5	**173,689**	49,908
Research and development costs	6	**(227,608)**	(230,916)
Selling and distribution expenses		**(544,071)**	(472,976)
Administrative expenses		**(709,647)**	(836,216)
Other expenses		**(119,126)**	(27,750)
Finance costs	7	**(47,040)**	(67,722)
Share of losses of:			
A joint venture		**(139)**	–
An associate		**(2,332)**	(127)
PROFIT BEFORE TAX	6	**252,117**	328,691
Income tax expense	9	**(99,726)**	(109,755)
PROFIT FOR THE YEAR		**152,391**	218,936
Attributable to:			
Owners of the parent		**152,257**	212,876
Non-controlling interests		**134**	6,060
		152,391	218,936
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**HK6.23 cents**	HK8.69 cents (Restated)
Diluted		**HK6.23 cents**	HK8.69 cents (Restated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**152,391**	218,936
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(312,870)**	(227,469)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(312,870)**	(227,469)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(312,870)**	(227,469)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(160,479)**	(8,533)
Attributable to:		
Owners of the parent	**(156,685)**	(11,625)
Non-controlling interests	**(3,794)**	3,092
	(160,479)	(8,533)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**537,970**	607,950
Prepaid land lease payments	13	**121,264**	132,054
Goodwill	14	**28,571**	28,571
Deferred tax assets	15	**109,409**	140,256
Intangible assets	16	**209,259**	211,838
Investment in a joint venture	17	**5,575**	–
Investment in an associate	18	**21,683**	23,903
Available-for-sale investment	19	**7,241**	–
Prepayments	20	**397,636**	–
Restricted bank deposits	24	**29,168**	22,009
Total non-current assets		**1,467,776**	1,166,581
CURRENT ASSETS			
Inventories	21	**1,357,700**	1,731,068
Trade receivables	22	**3,842,680**	3,967,602
Notes receivable	23	**46,919**	96,376
Prepayments, deposits and other receivables	20	**641,440**	616,596
Restricted bank deposits	24	**178,230**	249,292
Cash and cash equivalents	24	**1,420,214**	1,747,360
Total current assets		**7,487,183**	8,408,294
CURRENT LIABILITIES			
Trade and bills payables	25	**2,893,459**	3,257,652
Other payables and accruals	26	**1,105,620**	1,067,397
Derivative financial instrument	27	**–**	1,501
Interest-bearing bank borrowings	28	**693,660**	595,478
Tax payable		**11,159**	65,331
Provisions for product warranties	29	**70,571**	85,394
Total current liabilities		**4,774,469**	5,072,753
NET CURRENT ASSETS		**2,712,714**	3,335,541
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,180,490**	4,502,122

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**673,152**	775,354
Deferred tax liabilities	15	**14,189**	14,981
Total non-current liabilities		**687,341**	790,335
Net assets		**3,493,149**	3,711,787
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**246,106**	203,377
Treasury shares	30	**(22,818)**	(22,530)
Reserves	32	**3,214,399**	3,471,684
		3,437,687	3,652,531
Non-controlling interests		**55,462**	59,256
Total equity		**3,493,149**	3,711,787

Fok Tung Ling
Director

Zhang Yue Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 (note 30)	Treasury shares HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Share-based compensation reserve HK$'000 (note 31)	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015		167,882	(13,114)	722,878	52,730	45,827	64,973	104,412	514,263	2,049,940	3,709,791	56,164	3,765,955
Profit for the year		–	–	–	–	–	–	–	–	212,876	212,876	6,060	218,936
Other comprehensive loss for the year:													
Exchange differences related to foreign operations		–	–	–	–	–	–	–	(224,501)	–	(224,501)	(2,968)	(227,469)
Total comprehensive loss for the year		–	–	–	–	–	–	–	(224,501)	212,876	(11,625)	3,092	(8,533)
Issue of bonus shares	30(a)	35,296	(165)	(35,131)	–	–	–	–	–	–	–	–	–
Share option scheme													
– value of services	6	–	–	–	9,267	–	–	–	–	–	9,267	–	9,267
– exercise of share options	30(b)	199	–	4,407	(674)	–	–	–	–	–	3,932	–	3,932
– adjustment arising from lapse of share options		–	–	–	(64)	–	–	–	–	64	–	–	–
– share options cancelled at expiry date		–	–	–	(41,932)	–	–	–	–	41,932	–	–	–
Share award scheme													
– shares purchased	30(c)	–	(9,251)	–	–	–	–	–	–	–	(9,251)	–	(9,251)
Transfer to/from retained profits		–	–	–	–	–	(3,609)	29,809	–	(26,200)	–	–	–
Final 2014 dividend declared		–	–	–	–	–	–	–	–	(21,825)	(21,825)	–	(21,825)
Interim 2015 dividend	10	–	–	–	–	–	–	–	–	(27,758)	(27,758)	–	(27,758)
At 31 December 2015		203,377	(22,530)	692,154	19,327	45,827	61,364	134,221	289,762	2,229,029	3,652,531	59,256	3,711,787

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 (note 30)	Treasury shares HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Share-based compensation reserve HK$'000 (note 31)	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		203,377	(22,530)	692,154	19,327	45,827	61,364	134,221	289,762	2,229,029	3,652,531	59,256	3,711,787
Profit for the year		-	-	-	-	-	-	-	-	152,257	152,257	134	152,391
Other comprehensive loss for the year:													
Exchange differences related to foreign operations		-	-	-	-	-	-	-	(308,942)	-	(308,942)	(3,928)	(312,870)
Total comprehensive loss for the year		-	-	-	-	-	-	-	(308,942)	152,257	(156,685)	(3,794)	(160,479)
Issue of bonus shares	30(d)	42,710	(288)	(42,422)	-	-	-	-	-	-	-	-	-
Share option scheme													
– value of services	6	-	-	-	11,732	-	-	-	-	-	11,732	-	11,732
– exercise of share options	30(e)	19	-	339	(84)	-	-	-	-	-	274	-	274
– adjustment arising from lapse of share options		-	-	-	(422)	-	-	-	-	422	-	-	-
Transfer to/from retained profits		-	-	-	-	-	(3,609)	23,304	-	(19,695)	-	-	-
Final 2015 dividend declared	10	-	-	-	-	-	-	-	-	(36,608)	(36,608)	-	(36,608)
Interim 2016 dividend	10	-	-	-	-	-	-	-	-	(33,557)	(33,557)	-	(33,557)
At 31 December 2016		246,106	(22,818)	650,071*	30,553*	45,827*	57,755*	157,525*	(19,180)*	2,291,848*	3,437,687	55,462	3,493,149

* These reserve accounts comprise the consolidated reserves of HK$3,214,399,000 (2015: HK$3,471,684,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**252,117**	328,691
Adjustments for:			
Interest income	5	**(7,921)**	(14,548)
Finance costs	7	**47,040**	67,722
Share of losses of a joint venture and an associate		**2,471**	127
Loss on financial instrument at fair value through profit or loss, net	6	**59,559**	1,501
Depreciation	6	**76,552**	99,981
Recognition of prepaid land lease payments	6	**2,753**	2,083
Amortization of intangible assets	16	**65,655**	74,967
Equity-settled share option expense	6	**11,732**	9,267
Loss on disposal of items of property, plant and equipment	6	**3,676**	5,837
		513,634	575,628
Decrease in inventories		**261,629**	403,774
(Increase)/decrease in trade receivables		**(131,183)**	217,937
Decrease in long-term trade receivables		**–**	12,179
Decrease in notes receivable		**43,236**	46,609
Increase in prepayments, deposits and other receivables		**(64,822)**	(19,907)
Decrease in trade and bills payables		**(166,620)**	(26,037)
Increase/(decrease) in other payables and accruals		**93,123**	(57,531)
(Decrease)/increase in provisions for product warranties		**(9,747)**	11,389
Cash generated from operations		**539,250**	1,164,041
Mainland China profits tax paid		**(99,259)**	(72,638)
Overseas profits taxes paid		**(28,325)**	(1,970)
Net cash flows from operating activities		**411,666**	1,089,433
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**7,921**	14,548
Purchases of items of property, plant and equipment	12	**(52,460)**	(58,106)
Addition of intangible assets	16	**(77,227)**	(99,870)
Addition of prepaid land lease payments	13	**–**	(84,801)
Proceeds from disposal of items of property, plant and equipment		**12,470**	1,271
Forward currency contract paid		**(61,060)**	–
Investment in an associate		**–**	(24,026)
Investment in a joint venture		**(5,708)**	–
Purchase of an available-for-sale investment		**(8,518)**	–
Prepayment for acquisition of a subsidiary		**(397,636)**	–
Decrease in restricted bank deposits		**46,390**	71,743
Net cash flows used in investing activities		**(535,828)**	(179,241)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,871,023**	1,742,455
Repayment of bank loans		**(1,861,486)**	(2,005,631)
Amount paid for shares for share award scheme	30(c)	**–**	(9,251)
Proceeds from issue of shares		**274**	3,932
Interest paid		**(47,040)**	(67,722)
Dividends paid		**(70,165)**	(49,583)
Net cash flows used in financing activities		**(107,394)**	(385,800)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(231,556)**	524,392
Cash and cash equivalents at beginning of year		**1,747,360**	1,274,796
Effect of foreign exchange rate changes, net		**(95,590)**	(51,828)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,420,214**	1,747,360
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**1,407,807**	1,747,360
Non-pledged time deposits with original maturity of less than three months when acquired	24	**12,407**	–
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,420,214**	1,747,360
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,420,214**	1,747,360

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

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

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services.

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands	US$100	100	–	Investment holding
Praises Holdings Limited	British Virgin Islands	US$100	–	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	–	100	Investment holding and trading
Comba Telecom Systems (Guangzhou) Limited 京信通信系統(廣州)有限公司*	PRC/Mainland China	HK$260,000,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術(廣州)有限公司*	PRC/Mainland China	HK$299,000,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Systems (China) Limited 京信通信系統(中國)有限公司*	PRC/Mainland China	US$46,665,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba Software Technology (Guangzhou) Limited 京信軟件科技(廣州)有限公司*	PRC/Mainland China	HK$10,000,000	–	100	Provision of software technology services
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 廣州泰普無線通信設備有限公司*	PRC/Mainland China	RMB1,000,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
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
Guangzhou 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
Cascade Technology Limited	British Virgin Islands	US$1	–	100	Investment holding
WaveLab Holdings Limited	Cayman Islands	US$1,000	–	55	Investment holding
WaveLab, Inc.	Commonwealth of Virginia/ United States of America	US$400,000	–	55	Research and development of digital microwave system equipment

NOTES TO FINANCIAL STATEMENTS
31 December 2016

1. CORPORATE AND GROUP INFORMATION (continued)

Particulars of the Company's principal subsidiaries are as follows: (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 GLOBAL, Incorporated	Commonwealth of Virginia/ United States of America	US$500,000	–	55	Trading of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US$1	–	55	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備(廣州)有限公司*	PRC/Mainland China	US$3,400,000	–	55	Manufacture and sale of digital microwave system equipment
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 and trading of wireless telecommunications network system equipment
Comba Telecom Co., Ltd.	Thailand	THB2,000,000	–	100	Trading of wireless telecommunications network system equipment
Comba Telecom Systems AB	Sweden	SEK100,000	–	100	Provision of marketing services

1. CORPORATE AND GROUP INFORMATION (continued)

Particulars of the Company's principal subsidiaries are as follows: (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
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
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	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	MXN50,000	–	100	Provision of general and engineering services

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION (continued)

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

2.1 BASIS OF PREPARATION

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

2.1 BASIS OF PREPARATION (continued)

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016 (the "Current Year"). A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycl*e, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

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

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

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

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

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

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilize a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL (continued)

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

FAIR VALUE MEASUREMENT

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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);

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

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

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.

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 three years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES

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

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

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. 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 other expenses.

Available-for-sale financial investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Available-for-sale financial investments (continued)

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS (continued)

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

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

Available-for-sale financial investments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or as loans and borrowings, as appropriate.

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 accruals, derivative financial instrument and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. The net fair value gain or loss recognized in the statement of profit or loss does not include any interest charged on these financial liabilities.

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 Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee 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.

DERIVATIVE FINANCIAL INSTRUMENTS

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

TREASURY SHARES

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

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if 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 and the related installation, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

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

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

SHARE-BASED PAYMENTS

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SHARE-BASED PAYMENTS (continued)

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BORROWING COSTS

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

DIVIDENDS

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

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

FOREIGN CURRENCIES

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

JUDGEMENTS

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

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

JUDGEMENTS (continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Recognition of a deferred tax liability for withholding taxes

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

ESTIMATION UNCERTAINTY

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

Impairment allowances for trade and other receivables

Impairment allowances for trade and other receivables are made based on assessment of the recoverability of trade and other receivables with reference to the age of the balance, location of debtors, existence of disputes, historical payment patterns and any other available information concerning the creditworthiness of the counterparties. 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 any additional impairment or reversal of impairment will be reflected in the period in which such estimate has been changed. Please refer to note 22 to the financial statements for details of impairment for trade receivables.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories at the end of each reporting period and makes provisions against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use based on sales forecasts. Such sales forecasts are prepared based on agreements or orders on hand and estimated sales in the foreseeable future based on historical experiences with its customers and current market conditions of telecommunications industry. Management estimates the net realizable value for those obsolete and slow-moving inventories based primarily on the latest invoice prices and current market conditions. The estimation is reassessed at the end of each reporting period. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognized in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2016 was HK$1,357,700,000 (2015: HK$1,731,068,000). For details, please refer to note 21 to the financial statements. During the year ended 31 December 2016, a write-down of inventories of HK$83,587,000 (2015: HK$71,500,000) was recognized in the consolidated statement of profit or loss. For details, please refer to note 6 to the financial statements.

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 2016 was approximately HK$28,571,000 (2015: HK$28,571,000). For details, refer to note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2016, the best estimate of the carrying amount of capitalized development costs was HK$189,082,000 (2015: HK$194,321,000). For details, please refer to 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 the sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provisions for product warranties were not discounted as the effect of discounting was not material.

Fair values of financial instruments

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.

Fair values of property, plant and equipment

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As at 31 December 2016, the carrying amounts of the property, plant and equipment approximated to their fair values. For details, refer to note 12 to the financial statements.

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.

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2016	2015
	HK$'000	HK$'000
Mainland China	**5,031,822**	5,759,032
Other countries/areas in Asia Pacific	**432,775**	332,871
Americas	**263,651**	432,319
European Union	**186,702**	183,494
Middle East	**35,481**	41,008
Other countries	**3,897**	22,170
	5,954,328	6,770,894

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

(b) Non-current assets

Because majority of the Group's non-current assets and capital expenditure were located/incurred in Mainland China, no related geographical information of non-current assets is presented.

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue of approximately HK$1,756,149,000 (2015: HK$2,114,042,000), HK$1,536,667,000 (2015: HK$1,734,219,000) and HK$1,178,199,000 (2015: HK$1,576,667,000) was derived from 3 major customers, which accounted for 29.5% (2015: 31.2%), 25.8% (2015: 25.6%) and 19.8% (2015: 23.3%) of the total revenue of the Group, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2016 HK$'000	2015 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**5,726,945**	6,385,323
Maintenance services	**227,383**	385,571
	5,954,328	6,770,894
Other income and gains		
Bank interest income	**7,921**	14,548
Exchange gain, net	**69,458**	–
Government subsidies#	**67,136**	9,916
VAT refunds*	**14,012**	13,234
Gross rental income	**6,086**	6,773
Others	**9,076**	5,437
	173,689	49,908

The government subsidies represent various cash payments and subsidies provided by the government authorities to the Group as encouragement to its technological innovation, intellectual property and investment of research and development. There are no unfulfilled conditions or contingencies relating to these subsidies.

* During the years ended 31 December 2015 and 2016, 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. PROFIT BEFORE TAX

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold and services provided		**4,053,089**	4,650,673
Depreciation	12	**76,552**	99,981
Recognition of prepaid land lease payments	13	**2,753**	2,083
Amortization of computer software and technology	16	**3,520**	6,527
Research and development costs:			
Deferred expenditure amortized*	16	**62,135**	68,440
Current year expenditure		**227,608**	230,916
		289,743	299,356
Minimum lease payments under operating leases		**53,215**	69,343
Auditor's remuneration		**3,768**	2,967
Employee benefit expense (including directors' remuneration, note 8)^:			
Salaries and wages		**978,975**	952,692
Staff welfare expenses		**72,318**	75,486
Equity-settled share option expense	31(a)	**11,732**	9,267
Pension scheme contributions (defined contribution schemes)#		**75,957**	87,211
		1,138,982	1,124,656
Exchange (gain)/loss, net	5	**(69,458)**	134,842
Write-down of inventories to net realizable value		**83,587**	71,500
Impairment of trade receivables	22	**46,568**	16,848
Provision for product warranties	29	**17,787**	51,618
Loss on financial instrument at fair value through profit or loss, net		**59,559**	1,501
Loss on disposal of items of property, plant and equipment		**3,676**	5,837

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

^ Staff costs capitalized into deferred development costs amounting to HK$61,113,000 (2015: HK$77,375,000) have not been included in the employee benefit expense.

\# At 31 December 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2015: Nil).

7. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on bank loans	**47,040**	67,722

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES

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

	2016 HK$'000	2015 HK$'000
Fees	**970**	920
Other emoluments:		
Salaries, allowances and benefits in kind	**10,902**	11,432
Performance related bonuses	**15,886**	7,729
Equity-settled share option expense	**1,361**	1,435
Pension scheme contributions	**244**	258
	28,393	20,854
	29,363	21,774

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognized in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the Current Year is included in the above directors' remuneration disclosures.

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

(a) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2016	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,020	2,021	72	18	4,131
Mr. Zhang Yue Jun*	–	1,820	4,711	72	69	6,672
Mr. Zheng Guo Bao	100	2,012	–	–	60	2,172
Mr. Yeung Pui Sang, Simon	–	2,768	2,465	472	18	5,723
Mr. Zhang Yuan Jian	–	1,074	4,229	472	70	5,845
Dr. Tong Chak Wai, Wilson (resigned on 6 June 2016)	–	1,208	2,460	181	9	3,858
	100	10,902	15,886	1,269	244	28,401
Non-executive directors:						
Mr. Liu Cai	220	–	–	23	–	243
Mr. Lau Siu Ki, Kevin	210	–	–	23	–	233
Dr. Lin Jin Tong	220	–	–	23	–	243
Mr. Qian Ting Shuo	220	–	–	23	–	243
	870	–	–	92	–	962
	970	10,902	15,886	1,361	244	29,363

* Mr. Zhang Yue Jun is also the chief executive of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

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

2015	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,026	2,778	116	18	4,938
Mr. Zhang Yue Jun	–	1,776	2,684	116	67	4,643
Mr. Zheng Guo Bao	100	2,337	–	–	70	2,507
Mr. Yeung Pui Sang, Simon	–	2,124	360	347	18	2,849
Mr. Zhang Yuan Jian	–	1,068	1,552	347	67	3,034
Dr. Tong Chak Wai, Wilson	–	2,101	355	417	18	2,891
	100	11,432	7,729	1,343	258	20,862
Non-executive directors:						
Mr. Liu Cai	210	–	–	23	–	233
Mr. Lau Siu Ki, Kevin	190	–	–	23	–	213
Dr. Lin Jin Tong	210	–	–	23	–	233
Mr. Qian Ting Shuo	210	–	–	23	–	233
	820	–	–	92	–	912
	920	11,432	7,729	1,435	258	21,774

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

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

(b) 5 HIGHEST PAID EMPLOYEES

The 5 highest paid employees during the year included 4 directors (2015: 3 directors), details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining 1 (2015: 2) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 HK$'000
Salaries, allowances and benefits in kind	1,030
Performance related bonuses	3,296
Equity-settled share option expense	368
Pension scheme contributions	63
	4,757

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2016
HK$4,500,001 to HK$5,000,000	1

NOTES TO FINANCIAL STATEMENTS

31 December 2016

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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.

	2016 HK$'000	2015 HK$'000
Current – Hong Kong		
Charged for the year	7,976	6,147
Overprovision in prior year	–	(698)
Current – Mainland China		
Charged for the year	64,095	100,420
Overprovision in prior year	(6,142)	–
Current – Elsewhere	11,700	9,661
Deferred	22,097	(5,775)
Total tax charge for the year	99,726	109,755

Under the relevant income tax law, the subsidiaries in Mainland China are subject to corporate income tax at a statutory rate of 25% on their respective taxable income during the year.

Comba Telecom Technology (Guangzhou) Limited, Comba Telecom Systems (China) Limited, Comba Software Technology (Guangzhou) Limited and Comba Telecom Systems (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the year ended 31 December 2016 based on the designation as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology which remained effective for the year ended 31 December 2016.

9. INCOME TAX (continued)

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

	2016		2015	
	HK$'000	%	HK$'000	%
Profit before tax	252,117		328,691	
Tax at the applicable tax rate in Mainland China	63,029	25.00	82,173	25.00
Lower tax rates for specific provinces or enacted by local authority	(8,046)	(3.19)	(40,958)	(12.46)
Effect on opening deferred tax of decrease in rate	7,770	3.08	–	–
Adjustments in respect of current tax of previous years	(6,142)	(2.44)	(698)	(0.21)
Income not subject to tax	(14,413)	(5.72)	(9,444)	(2.87)
Expenses not deductible for tax	38,792	15.39	69,248	21.07
Additional deductible research and development expenses	(21,983)	(8.72)	(22,187)	(6.75)
Tax losses utilized from previous years	(50)	(0.02)	(6,251)	(1.90)
Tax losses not recognized	40,769	16.17	37,872	11.52
Tax charge at the Group's effective rate	99,726	39.55	109,755	33.40

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$153,931,000 (2015: HK$192,795,000) 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 2016.

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

10. DIVIDENDS

	2016 HK$'000	2015 HK$'000
Interim – HK1.5 cents (2015: HK1.5 cents) per ordinary share	**33,557**	27,758
Proposed final – HK0.8 cents (2015: HK1.8 cents) per ordinary share	**19,688**	36,608
	53,245	64,366

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,444,321,000 (2015 (restated): 2,448,378,000) in issue during the year, as adjusted to reflect the bonus issues during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	2016 HK$'000	2015 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**152,257**	212,876

	Number of shares	
	2016	2015 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**2,444,321,000**	2,448,378,000

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2016					
At 31 December 2015 and 1 January 2016:					
Cost or valuation	489,375	624,399	202,070	39,595	1,355,439
Accumulated depreciation	(68,957)	(485,950)	(161,752)	(30,830)	(747,489)
Net carrying amount	420,418	138,449	40,318	8,765	607,950
At 1 January 2016, net of accumulated depreciation	420,418	138,449	40,318	8,765	607,950
Additions	3,669	36,292	10,999	1,500	52,460
Disposals	–	(13,815)	(1,582)	(749)	(16,146)
Depreciation provided during the year	(25,875)	(35,259)	(12,632)	(2,786)	(76,552)
Exchange realignment	(19,698)	(8,361)	(1,461)	(222)	(29,742)
At 31 December 2016, net of accumulated depreciation	378,514	117,306	35,642	6,508	537,970
At 31 December 2016:					
Cost or valuation	462,807	581,877	196,327	36,205	1,277,216
Accumulated depreciation	(84,293)	(464,571)	(160,685)	(29,697)	(739,246)
Net carrying amount	378,514	117,306	35,642	6,508	537,970

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2015					
At 31 December 2014 and 1 January 2015:					
Cost or valuation	496,401	644,367	212,725	38,155	1,391,648
Accumulated depreciation	(49,573)	(469,694)	(160,069)	(30,688)	(710,024)
Net carrying amount	446,828	174,673	52,656	7,467	681,624
At 1 January 2015, net of accumulated depreciation	446,828	174,673	52,656	7,467	681,624
Additions	16,191	28,199	8,801	4,915	58,106
Disposals	(1,170)	(4,748)	(897)	(293)	(7,108)
Depreciation provided during the year	(26,606)	(52,767)	(17,698)	(2,910)	(99,981)
Exchange realignment	(14,825)	(6,908)	(2,544)	(414)	(24,691)
At 31 December 2015, net of accumulated depreciation	420,418	138,449	40,318	8,765	607,950
At 31 December 2015:					
Cost or valuation	489,375	624,399	202,070	39,595	1,355,439
Accumulated depreciation	(68,957)	(485,950)	(161,752)	(30,830)	(747,489)
Net carrying amount	420,418	138,449	40,318	8,765	607,950

For the year ended 31 December 2016, no revaluation of buildings was performed as there were no significant movements in the fair value of the buildings.

13. PREPAID LAND LEASE PAYMENTS

	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January	**134,969**	54,330
Addition	**–**	84,801
Recognized during the year	**(2,753)**	(2,083)
Exchange realignment	**(8,214)**	(2,079)
Carrying amount at 31 December	**124,002**	134,969
Current portion included in prepayments, deposits and other receivables	**(2,738)**	(2,915)
Non-current portion	**121,264**	132,054

14. GOODWILL

	2016 HK$'000	2015 HK$'000
Cost and net carrying amount at 1 January	**28,571**	28,571
Cost and net carrying amount at 31 December	**28,571**	28,571

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations is allocated to the wireless telecommunications equipment cash-generating unit 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 a 5-year period approved by management. The discount rate applied to the cash flow projections is approximately 19% (2015: 19%).

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

15. DEFERRED TAX

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

DEFERRED TAX ASSETS

	Unrealized profit HK$'000	Accruals HK$'000	Products warranty HK$'000	Total HK$'000
At 1 January 2015	70,991	48,712	22,083	141,786
Deferred tax credited/(charged) to the statement of profit or loss during the year	2,615	(159)	2,463	4,919
Exchange realignment	(3,205)	(2,175)	(1,069)	(6,449)
At 31 December 2015	**70,401**	**46,378**	**23,477**	**140,256**
Deferred tax (charged)/credited to the statement of profit or loss during the year	**(27,999)**	**12,141**	**(7,031)**	**(22,889)**
Exchange realignment	**(3,220)**	**(3,537)**	**(1,201)**	**(7,958)**
At 31 December 2016	**39,182**	**54,982**	**15,245**	**109,409**

DEFERRED TAX LIABILITIES

	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2015	11,469	4,368	15,837
Deferred tax credited to the statement of profit or loss during the year	(696)	(160)	(856)
At 31 December 2015	**10,773**	**4,208**	**14,981**
Deferred tax credited to the statement of profit or loss during the year	**(632)**	**(160)**	**(792)**
At 31 December 2016	**10,141**	**4,048**	**14,189**

At 31 December 2016, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately HK$2,264,497,000 at 31 December 2016 (2015: HK$2,096,384,000).

16. INTANGIBLE ASSETS

	Computer software and technology HK$'000	Golf club membership HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December 2016				
Cost at 1 January 2016, net of accumulated amortization	**16,403**	**1,114**	**194,321**	**211,838**
Additions	**7,446**	**–**	**69,781**	**77,227**
Amortization provided during the year	**(3,520)**	**–**	**(62,135)**	**(65,655)**
Exchange realignment	**(1,266)**	**–**	**(12,885)**	**(14,151)**
At 31 December 2016	**19,063**	**1,114**	**189,082**	**209,259**
At 31 December 2016:				
Cost	**37,508**	**1,114**	**406,756**	**445,378**
Accumulated amortization	**(18,445)**	**–**	**(217,674)**	**(236,119)**
Net carrying amount	**19,063**	**1,114**	**189,082**	**209,259**
31 December 2015				
Cost at 1 January 2015, net of accumulated amortization	19,854	1,114	175,544	196,512
Additions	3,894	–	95,976	99,870
Amortization provided during the year	(6,527)	–	(68,440)	(74,967)
Exchange realignment	(818)	–	(8,759)	(9,577)
At 31 December 2015	16,403	1,114	194,321	211,838
At 31 December 2015:				
Cost	59,117	1,114	336,974	397,205
Accumulated amortization	(42,714)	–	(142,653)	(185,367)
Net carrying amount	16,403	1,114	194,321	211,838

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. INVESTMENT IN A JOINT VENTURE

	2016 HK$'000	2015 HK$'000
Share of net assets	5,575	–

The following table illustrates the financial information of the Group's joint venture:

	2016 HK$'000	2015 HK$'000
Share of the joint venture's loss for the year	(139)	–
Share of the joint venture's total comprehensive loss	(139)	–
Carrying amount of the Group's investment in the joint venture	5,575	–

18. INVESTMENT IN AN ASSOCIATE

	2016 HK$'000	2015 HK$'000
Share of net assets	21,683	23,903

The following table illustrates the financial information of the Group's associate:

	2016 HK$'000	2015 HK$'000
Share of the associate's loss for the year	(2,332)	(127)
Share of the associate's total comprehensive loss	(2,332)	(127)
Carrying amount of the Group's investment in the associate	21,683	23,903

19. AVAILABLE-FOR-SALE INVESTMENT

	2016 HK$'000	2015 HK$'000
Unlisted equity investment, at cost	7,241	–

As at 31 December 2016, certain unlisted equity investment with a carrying amount of HK$7,241,000 (2015: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Non-current assets		
Prepayments*	**397,636**	–
Current assets		
Prepayments	**341,519**	329,006
Deposits	**143,176**	132,152
Other receivables	**156,745**	155,438
	641,440	616,596

* The Group's prepayments under non-current assets as at 31 December 2016 were mainly related to the instalment payment for the acquisition of 51% interest in ETL Public Company Ltd, a State-owned company incorporated under the Laws of Lao P.D.R. ETL Public Company Ltd is principally engaged in providing telecommunication services and their value added services. The purchase consideration for the acquisition was approximately US$91,800,000.

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.

21. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**185,317**	216,484
Project materials	**168,005**	195,187
Work in progress	**61,666**	76,030
Finished goods	**388,741**	429,772
Inventories on site	**553,971**	813,595
	1,357,700	1,731,068

22. TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**3,989,253**	4,060,917
Impairment	**(146,573)**	(93,315)
	3,842,680	3,967,602

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

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

	2016 HK$'000	2015 HK$'000
Within 3 months	**1,412,098**	1,517,274
4 to 6 months	**298,888**	398,619
7 to 12 months	**631,684**	708,671
More than 1 year	**1,646,583**	1,436,353
	3,989,253	4,060,917
Provision for impairment	**(146,573)**	(93,315)
	3,842,680	3,967,602

22. TRADE RECEIVABLES (continued)

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

	2016 HK$'000	2015 HK$'000
At 1 January	**93,315**	100,197
Impairment losses recognized	**46,568**	16,848
Amount written off as uncollectible	**(3,705)**	(1,053)
Exchange realignment	**10,395**	(22,677)
	146,573	93,315

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$146,573,000 (2015: HK$93,315,000) with a carrying amount before provision of HK$146,573,000 (2015: HK$117,582,000).

The individually impaired trade receivables relate to customers that were in default in payments and no receivable is expected to be recovered.

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

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	**2,342,668**	2,624,563
Less than 1 year past due	**712,726**	756,598
1 to 2 years past due	**295,102**	253,886
More than 2 years past due	**492,184**	308,287
	3,842,680	3,943,334

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

23. NOTES RECEIVABLE

At 31 December 2015 and 2016, none of the notes receivable were endorsed.

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

24. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**1,407,807**	1,747,360
Time deposits	**219,805**	271,301
	1,627,612	2,018,661
Less:		
Restricted bank deposits for bills payable	**(60,246)**	(139,335)
Restricted bank deposits for performance bonds	**(147,152)**	(131,966)
Cash and cash equivalents	**1,420,214**	1,747,360

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,088,929,000 (2015: HK$1,394,404,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

25. 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:

	2016 HK$'000	2015 HK$'000
Within 3 months	**1,458,277**	1,774,133
4 to 6 months	**641,136**	583,917
7 to 12 months	**372,124**	582,978
More than 1 year	**421,922**	316,624
	2,893,459	3,257,652

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

26. OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Accruals	**304,278**	252,992
Deposits received	**87,127**	150,659
Other payables	**714,215**	663,746
	1,105,620	1,067,397

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

27. DERIVATIVE FINANCIAL INSTRUMENT

	2016 Liabilities HK$'000	2015 Liabilities HK$'000
Forward currency contract	**–**	1,501

The Group has entered into a Brazilian Real non-deliverable forward currency contract with an international bank to manage certain of its exchange rate exposures. The forward currency contract is measured at fair value through profit or loss. The net loss realized on changes in the fair value of the forward currency contract amounting to HK$59,559,000 was charged to the consolidated statement of profit or loss during the year (2015: HK$1,501,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

28. INTEREST-BEARING BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Analyzed into:		
Within 1 year	**693,660**	595,478
In the 2nd to 3rd years, inclusive	**673,152**	775,354
	1,366,812	1,370,832

As at 31 December 2016, loans denominated in Hong Kong dollars, United States dollars, RMB and EURO amounted to HK$890,000,000 (2015: Nil), HK$21,389,000 (2015: HK$969,192,000), HK$454,770,000 (2015: HK$401,640,000) and HK$653,000 (2015: Nil), respectively.

The Group entered into 3-year term loan facility agreements (the "Facility Agreements") amounting to HK$730,857,000 with certain financial institutions.

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

As at 31 December 2016, the Group had utilized amounts of HK$673,152,000 of the Facility Agreements. As at 31 December 2016, the outstanding term loan balances amounted to HK$673,152,000, which are repayable in the 2nd to 3rd years inclusive.

The interest-bearing bank borrowings as at 31 December 2015 included a loan balance of HK$969,192,000 under a 3-year term loan facility agreement amounting to US$200,000,000 (equivalent to HK$1,550,707,000) entered into between the Group and certain financial institutions on 15 June 2015 (the "2015 Facility Agreement"). As at 31 December 2015, the outstanding term loan balance amounted to HK$969,192,000, of which, HK$193,838,000 and HK$775,354,000 were repayable within 1 year and in the 2nd to 3rd years inclusive, respectively. The term loan bore interest at 3.8% per annum. The loan balance under the 2015 Facility Agreement was fully repaid on 28 November 2016.

Bank loans as at 31 December 2016 bear interest at rates ranging from 1.3% to 4.5% (2015: from 3.8% to 4.6%) per annum.

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values (note 38).

29. PROVISIONS FOR PRODUCT WARRANTIES

	2016 HK$'000	2015 HK$'000
At 1 January	**85,394**	77,863
Additional provisions	**17,787**	51,618
Amounts utilized during the year	**(27,534)**	(40,228)
Exchange realignment	**(5,076)**	(3,859)
At 31 December	**70,571**	85,394

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

30. SHARE CAPITAL

Shares	2016 HK$'000	2015 HK$'000
Authorized: 5,000,000,000 (2015: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid: 2,461,058,124 (2015: 2,033,767,128) ordinary shares of HK$0.10 each	**246,106**	203,377

30. SHARE CAPITAL (continued)

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

	Notes	Number of shares in issue	Issued capital HK$'000	Treasury shares HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2015		1,678,815,837	167,882	(13,114)	722,878	877,646
Issue of bonus shares	(a)	352,959,041	35,296	(165)	(35,131)	–
Share option scheme						
– exercise of share options	(b)	1,992,250	199	–	4,407	4,606
Share award scheme						
– shares purchased	(c)	–	–	(9,251)	–	(9,251)
At 31 December 2015 and 1 January 2016		**2,033,767,128**	**203,377**	**(22,530)**	**692,154**	**873,001**
Issue of bonus shares	**(d)**	**427,103,029**	**42,710**	**(288)**	**(42,422)**	**–**
Share option scheme						
– exercise of share options	**(e)**	**187,967**	**19**	**–**	**339**	**358**
At 31 December 2016		**2,461,058,124**	**246,106**	**(22,818)**	**650,071**	**873,359**

As at 31 December 2016, the total number of issued ordinary shares of the Company was 2,461,058,124 (2015: 2,033,767,128) shares which included 16,637,136 (2015: 13,749,702) shares held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (note 31(b)).

Notes:

(a) Pursuant to the annual general meeting and the extraordinary general meeting held on 3 June 2015 (the "Jun 2015 Bonus Issue") and 12 October 2015 (the "Oct 2015 Bonus Issue") respectively, bonus issues of shares on the basis of 1 bonus share for every 10 existing shares held on the respective record dates were approved. 168,071,141 bonus shares and 184,887,900 bonus shares were issued under the Jun 2015 Bonus Issue and the Oct 2015 Bonus Issue respectively. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

(b) During the year ended 31 December 2015, the subscription rights attaching to 1,992,250 share options were exercised at the adjusted exercise prices ranging from HK$1.802 to HK$1.982 per share, resulting in the issue of 1,992,250 shares of HK$0.10 each for a total cash consideration, before expenses of approximately HK$3,932,000.

(c) During the year ended 31 December 2015, the administrator of the Share Award Scheme acquired 5,644,000 shares of the Company through purchases on the open market at a cost of approximately HK$9,251,000.

30. SHARE CAPITAL (continued)

Notes: (continued)

(d) Pursuant to the annual general meeting and the extraordinary general meeting held on 27 May 2016 (the "May 2016 Bonus Issue") and 11 October 2016 (the "Oct 2016 Bonus Issue") respectively, bonus issues of shares on the basis of 1 bonus share for every 10 existing shares held on the respective record dates were approved. 203,376,682 bonus shares and 223,726,347 bonus shares were issued under the May 2016 Bonus Issue and the Oct 2016 Bonus Issue respectively. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

(e) During the Current Year, the subscription rights attaching to 187,967 share options were exercised at the adjusted exercise prices ranging from HK$1.354 to HK$1.489 per share, resulting in the issue of 187,967 shares of HK$0.10 each for a total cash consideration, before expenses of approximately HK$274,000.

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) SHARE OPTION SCHEME

The Company operates a share option scheme adopted on 3 June 2013 (the "2013 Scheme") which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for 10 years from that date.

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme, the Share Award Scheme (note 31(b)) and any other incentive or share option schemes of the Company shall not exceed 30% of the shares of the Company in issue at any time. The maximum number of shares already issued and to be issued upon exercise of share options granted to each eligible person under the 2013 Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding share options) in any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

(a) SHARE OPTION SCHEME (continued)

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

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

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

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

	2016		2015	
	Weighted average exercise price of share options* **HK$**	**Number of share options***	Weighted average exercise price of share options# HK$	Number of share options#
At 1 January	**1.354**	**58,103,925**	1.638	53,239,680
Exercised during the year	**1.354**	**(201,996)**	1.638	(2,400,008)
Lapsed during the year	**1.354**	**(2,967,592)**	1.638	(2,819,899)
Granted during the year	**1.255**	**77,000,000**	–	–
At 31 December	**1.296**	**131,934,337**	1.638	48,019,773

* The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the May 2016 Bonus Issue and the Oct 2016 Bonus Issue. The weighted average exercise price of each share option as at 1 January 2016 was adjusted from HK$1.638 per share to HK$1.354 per share. The number of share options as at 1 January 2016 was adjusted from 48,019,773 to 58,103,925.

The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the Jun 2015 Bonus Issue and the Oct 2015 Bonus Issue.

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

(a) SHARE OPTION SCHEME (continued)

70,000,000 share options were granted on 26 August 2016 with an exercise price of HK$1.380 under the 2013 Scheme during the Current Year. The closing price of the Company's shares immediately before the date on which the options were granted was HK$1.370. Following the Oct 2016 Bonus Issue, the exercise price and the number of share options were adjusted to HK$1.255 and 77,000,000 shares respectively.

The fair value of the share options granted during the Current Year was HK$34,300,000 (HK$0.49 each), of which the Group recognized a share option expense of HK$5,991,000 during the year ended 31 December 2016.

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

Dividend yield (%)	2.32
Expected volatility (%)	54.00
Risk-free interest rate (%)	0.62
Expected life of the share options (years)	1.5–2.5
Weighted average share price (HK$ per share)	1.38

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

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

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

(a) SHARE OPTION SCHEME (continued)

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

	Number of share options									
Name or category of participant	At 1 January 2016	Granted during the year	Adjusted during the year*	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2016	Date of grant of share options**	Exercise period of share options	Exercise price of share options HK$ per share
Executive directors										
Mr. Fok Tung Ling	665,500	–	139,755	–	–	–	805,255	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
Mr. Zhang Yue Jun	665,500	–	139,755	–	–	–	805,255	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
Mr. Yeung Pui Sang, Simon	1,996,500	–	419,265	–	–	–	2,415,765	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	-	3,000,000	300,000	–	–	–	3,300,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	1,996,500	3,000,000	719,265	–	–	–	5,715,765			
Mr. Zhang Yuan Jian	1,996,500	–	419,265	–	–	–	2,415,765	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	-	3,000,000	300,000	–	–	–	3,300,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	1,996,500	3,000,000	719,265	–	–	–	5,715,765			

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

(a) SHARE OPTION SCHEME (continued)

Movements in the number of the Company's share options under the 2013 Scheme during the Current Year are as follows: (continued)

Name or category of participant	At 1 January 2016	Granted during the year	Adjusted during the year*	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2016	Date of grant of share options**	Exercise period of share options	Exercise price of share options HK$ per share
		Number of share options								
Independent non-executive directors										
Mr. Liu Cai	133,100	–	27,951	–	–	–	161,051	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	-	100,000	10,000	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	133,100	100,000	37,951	–	–	–	271,051			
Mr. Lau Siu Ki, Kevin	133,100	–	27,951	–	–	–	161,051	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	-	100,000	10,000	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	133,100	100,000	37,951	–	–	–	271,051			
Dr. Lin Jin Tong	133,100	–	27,951	–	–	–	161,051	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	-	100,000	10,000	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	133,100	100,000	37,951	–	–	–	271,051			
Mr. Qian Ting Shuo	133,100	–	27,951	–	–	–	161,051	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	-	100,000	10,000	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	133,100	100,000	37,951	–	–	–	271,051			
Other employees in aggregate	42,163,373	–	8,680,580	(187,967)	–	(2,807,893)	47,848,093	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	-	63,600,000	6,360,000	–	–	–	69,960,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	42,163,373	63,600,000	15,040,580	(187,967)	–	(2,807,893)	117,808,093			
	48,019,773	70,000,000	16,910,424	(187,967)	–	(2,807,893)	131,934,337			

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

(a) SHARE OPTION SCHEME (continued)

* The share options were adjusted as a result of the May 2016 Bonus Issue and the Oct 2016 Bonus Issue. The number of ordinary shares of HK$0.10 each in the share capital of the Company to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 47,836,762 share options and the then outstanding 121,272,342 share options granted under the 2013 Scheme was adjusted to 52,620,154 ordinary shares and 133,399,374 ordinary shares of HK$0.10 each respectively.

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

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

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

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

31 December 2016 Number of share options	**Exercise price of share options HK$**	**Exercise period**
54,934,337^	**1.354^**	**11 April 2015 to 10 April 2019**
77,000,000*	**1.255***	**26 August 2017 to 25 August 2021**
131,934,337		

31 December 2015 Number of share options#	Exercise price of share options# HK$	Exercise period
48,019,773	1.638	11 April 2015 to 10 April 2019

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

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

\# The exercise price of each share option and the number of share options were adjusted as a result of the Jun 2015 Bonus Issue and the Oct 2015 Bonus Issue.

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

(a) SHARE OPTION SCHEME (continued)

The expense recognized in the consolidated statement of profit or loss for employee services received during the Current Year is approximately HK$11,732,000 (2015: HK$9,267,000).

At the end of the reporting period, the Company had 131,934,337 share options outstanding under the 2013 Scheme, of which 26,211,377 were vested and 105,722,960 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 131,934,337 additional ordinary shares of the Company and additional share capital of HK$13,193,000 and share premium of HK$157,823,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 131,261,601 share options outstanding under the 2013 Scheme, which represented approximately 5.33% of the Company's shares in issue as at that date.

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 3 June 2015, the Company may further grant 168,071,158 share options (being 10% of the total number of issued shares of the Company as at 3 June 2015). Since 70,000,000 shares were granted on 26 August 2016 under the refreshed limit, the total number of unissued share options under the scheme limit became 98,071,158 representing approximately 3.98% of the Company's shares in issue as at 31 December 2016.

(b) SHARE AWARD SCHEME

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

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

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.

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

(b) SHARE AWARD SCHEME (continued)

Movements in the number of treasury shares held for the Share Award Scheme for the years ended 31 December 2015 and 2016 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2016	**13,749,702**
Issue of bonus shares	**2,887,434**
At 31 December 2016	**16,637,136**

	Note	Treasury shares held for the Share Award Scheme
At 1 January 2015		6,453,557
Purchased at the market	30(c)	5,644,000
Issue of bonus shares		1,652,145
At 31 December 2015		13,749,702

No Awarded Shares held for Selected Persons were outstanding as at 31 December 2016.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 64 and 65 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.

33. CONTINGENT LIABILITIES

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

	2016 HK$'000	2015 HK$'000
Guarantees given to banks in respect of performance bonds	**209,426**	177,277

34. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	**4,462**	4,593
In the 2nd to 5th years, inclusive	**4,361**	8,780
After 5 years	**178**	553
	9,001	13,926

34. 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 5 years.

As at 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within 1 year	**40,152**	36,535
In the 2nd to 5th years, inclusive	**35,965**	26,279
After 5 years	**–**	821
	76,117	63,635

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 **HK$'000**	2015 HK$'000
Contracted, but not provided for:		
Plant and machinery	**415**	1,207
Capital contribution payable to the associate	**2,232**	2,386
	2,647	3,593

36. RELATED PARTY TRANSACTIONS

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

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

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	**27,758**	20,081
Equity-settled share option expense	**1,361**	1,435
Pension scheme contributions	**244**	258
Total compensation paid to key management personnel	**29,363**	21,774

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

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016 **Financial assets**	**Loans and receivables** **HK$'000**	**Available-for-sale financial assets** **HK$'000**	**Total** **HK$'000**
Available-for-sale investment	**–**	**7,241**	**7,241**
Trade receivables	**3,842,680**	**–**	**3,842,680**
Notes receivable	**46,919**	**–**	**46,919**
Financial assets included in prepayments, deposits and other receivables	**299,921**	**–**	**299,921**
Restricted bank deposits	**207,398**	**–**	**207,398**
Cash and cash equivalents	**1,420,214**	**–**	**1,420,214**
	5,817,132	**7,241**	**5,824,373**

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Financial liabilities	**Financial liabilities at fair value through profit or loss HK$'000**	**Financial liabilities at amortized cost HK$'000**	**Total HK$'000**
Trade and bills payables	**–**	**2,893,459**	**2,893,459**
Financial liabilities included in other payables and accruals	**–**	**739,000**	**739,000**
Interest-bearing bank borrowings	**–**	**1,366,812**	**1,366,812**
	–	**4,999,271**	**4,999,271**

2015 Financial assets	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivables	3,967,602	–	3,967,602
Notes receivable	96,376	–	96,376
Financial assets included in prepayments, deposits and other receivables	287,590	–	287,590
Restricted bank deposits	271,301	–	271,301
Cash and cash equivalents	1,747,360	–	1,747,360
	6,370,229	–	6,370,229

Financial liabilities	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortized cost HK$'000	Total HK$'000
Trade and bills payables	–	3,257,652	3,257,652
Financial liabilities included in other payables and accruals	–	682,429	682,429
Derivative financial instrument	1,501	–	1,501
Interest-bearing bank borrowings	–	1,370,832	1,370,832
	1,501	5,310,913	5,312,414

38. 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, the current portion of interest-bearing bank borrowings, 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 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 2016 was assessed to be insignificant.

As at 31 December 2015 and 2016, the carrying amounts of the Group's financial assets and financial liabilities approximate to their fair values.

The forward currency contract is measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including foreign exchange spot and forward rates. The carrying amount of the forward currency contract is the same as its fair values.

FAIR VALUE HIERARCHY

The Group did not have any financial liabilities measured at fair value as at 31 December 2016.

As at 31 December 2015, the forward currency contract measured at fair value belonged to hierarchy level 2 as disclosed in the accounting policy for fair value measurement in note 2.4 to the financial statements.

The Group did not have any financial assets measured at fair value as at 31 December 2015 and 2016.

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

INTEREST RATE RISK

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

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**
2016			
Hong Kong dollars	**50**	**(1,650)**	**–**
RMB	**50**	**(1,716)**	**–**
Hong Kong dollars	**(50)**	**1,650**	**–**
RMB	**(50)**	**1,716**	**–**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2015			
United States dollars	50	(3,877)	–
United States dollars	(50)	3,877	–

* Excluding retained profits

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 7.8% (2015: 7.9%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 88.9% (2015: 91.1%) of costs were denominated in the units' functional currencies.

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

	Increase/ (decrease) in US$/AED rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2016			
If Hong Kong dollar weakens against US$	5	56,852	–
If Hong Kong dollar strengthens against US$	(5)	(56,852)	–
If Brazil dollar weakens against US$	5	(29,641)	–
If Brazil dollar strengthens against US$	(5)	29,641	–
If RMB weakens against US$	5	11,007	–
If RMB strengthens against US$	(5)	(11,007)	–
If Hong Kong dollar weakens against AED	5	(10,352)	–
If Hong Kong dollar strengthens against AED	(5)	10,352	–

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK (continued)

	Increase/ (decrease) in US$/AED rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2015			
If Hong Kong dollar weakens against US$	5	11,897	–
If Hong Kong dollar strengthens against US$	(5)	(11,897)	–
If Brazil dollar weakens against US$	5	(22,592)	–
If Brazil dollar strengthens against US$	(5)	22,592	–
If RMB weakens against US$	5	9,932	–
If RMB strengthens against US$	(5)	(9,932)	–
If Hong Kong dollar weakens against AED	5	(8,122)	–
If Hong Kong dollar strengthens against AED	(5)	8,122	–

* Excluding retained profits

CREDIT RISK

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determining 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 not significant. 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 arising from other financial assets of the Group, which comprise cash at banks, notes receivable and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

39. 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 has certain concentrations of credit risk as 34% (2015: 36%) and 85% (2015: 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 is disclosed in note 22 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 purposes. The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2016			
	On demand HK$'000	**Within 1 year HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**582,042**	**141,226**	**707,052**	**1,430,320**
Trade and bills payables	**–**	**2,893,459**	**–**	**2,893,459**
Financial liabilities included in other payables and accruals	**–**	**739,000**	**–**	**739,000**
	582,042	**3,773,685**	**707,052**	**5,062,779**

	2015		
	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	643,069	808,204	1,451,273
Derivative financial instrument	1,501	–	1,501
Trade and bills payables	3,257,652	–	3,257,652
Financial liabilities included in other payables and accruals	682,429	–	682,429
	4,584,651	808,204	5,392,855

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2016.

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

	2016 **HK$'000**	2015 HK$'000
Interest-bearing bank borrowings	**1,366,812**	1,370,832
Total assets	**8,954,959**	9,574,875
Gearing ratio	**15.3%**	14.3%

40. 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.

41. COMPARATIVE AMOUNTS

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

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**689,455**	675,674
CURRENT ASSETS		
Other receivables	**290**	–
Due from subsidiaries	**1,146,200**	1,093,200
Cash and cash equivalents	**2,831**	2,061
Total current assets	**1,149,321**	1,095,261
CURRENT LIABILITIES		
Due to a subsidiary	**451,287**	376,763
Other payables and accruals	**75,643**	75,546
Total current liabilities	**526,930**	452,309
NET CURRENT ASSETS	**622,391**	642,952
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,311,846**	1,318,626
NON-CURRENT LIABILITIES		
Financial guarantee contracts	**11,388**	9,338
Net assets	**1,300,458**	1,309,288
EQUITY		
Issued capital	**246,106**	203,377
Treasury shares	**(22,818)**	(22,530)
Reserves (note)	**1,077,170**	1,128,441
Total equity	**1,300,458**	1,309,288

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Contributed surplus* HK$'000	Share-based compensation reserve** HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2014	722,878	373,108	52,730	762	24,673	1,174,151
Profit and total comprehensive income for the year	–	–	–	–	26,004	26,004
Issue of bonus shares	(35,131)	–	–	–	–	(35,131)
Share option scheme						
– value of services	–	–	9,267	–	–	9,267
– exercise of share options	4,407	–	(674)	–	–	3,733
– adjustment arising from lapse of share options	–	–	(64)	–	64	–
– share options cancelled at expiry date	–	–	(41,932)	–	41,932	–
Final 2014 dividend declared	–	–	–	–	(21,825)	(21,825)
Interim 2015 dividend	–	–	–	–	(27,758)	(27,758)
At 31 December 2015	692,154	373,108	19,327	762	43,090	1,128,441
Profit and total comprehensive income for the year	–	–	–	–	49,329	49,329
Issue of bonus shares	(42,422)	–	–	–	–	(42,422)
Share option scheme						
– value of services	–	–	11,732	–	–	11,732
– exercise of share options	339	–	(84)	–	–	255
– adjustment arising from lapse of share options	–	–	(422)	–	422	–
Final 2015 dividend declared	–	–	–	–	(36,608)	(36,608)
Interim 2016 dividend	–	–	–	–	(33,557)	(33,557)
At 31 December 2016	650,071	373,108	30,553	762	22,676	1,077,170

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

** The share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 22 March 2017.

5 YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last 5 financial years, as extracted from the published audited financial statements is set out below:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**5,954,328**	6,770,894	6,733,214	5,720,599	6,332,867
Cost of sales	**(4,225,937)**	(4,856,404)	(4,973,204)	(4,355,013)	(4,716,988)
Gross profit	**1,728,391**	1,914,490	1,760,010	1,365,586	1,615,879
Other income and gains	**173,689**	49,908	60,903	68,408	68,854
Research and development costs	**(227,608)**	(230,916)	(192,986)	(207,158)	(376,766)
Selling and distribution expenses	**(544,071)**	(472,976)	(509,477)	(505,566)	(503,749)
Administrative expenses	**(709,647)**	(836,216)	(789,727)	(788,888)	(904,640)
Other expenses	**(119,126)**	(27,750)	(65,524)	(37,107)	(5,073)
Finance costs	**(47,040)**	(67,722)	(61,147)	(55,153)	(42,635)
Share of losses of:					
A joint venture	**(139)**	–	–	–	–
An associate	**(2,332)**	(127)	–	–	–
PROFIT/(LOSS) BEFORE TAX	**252,117**	328,691	202,052	(159,878)	(148,130)
Income tax expense	**(99,726)**	(109,755)	(47,532)	(84,867)	(67,515)
PROFIT/(LOSS) FOR THE YEAR	**152,391**	218,936	154,520	(244,745)	(215,645)
Attributable to:					
Owners of the parent	**152,257**	212,876	151,061	(240,722)	(202,364)
Non-controlling interests	**134**	6,060	3,459	(4,023)	(13,281)
	152,391	218,936	154,520	(244,745)	(215,645)
TOTAL ASSETS	**8,954,959**	9,574,875	10,136,732	10,318,277	10,091,711
TOTAL LIABILITIES	**(5,461,810)**	(5,863,088)	(6,370,777)	(6,590,386)	(6,229,552)
NON-CONTROLLING INTERESTS	**(55,462)**	(59,256)	(56,164)	(54,095)	(56,537)
	3,437,687	3,652,531	3,709,791	3,673,796	3,805,622

京信通信系統控股有限公司
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