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# **Comba**

## **COMBA TELECOM SYSTEMS HOLDINGS LIMITED**

### **京信通信系統控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2342)**

#### **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

##### **FINANCIAL HIGHLIGHTS**

- Revenue decreased by 12.5% to HK\$5.06 billion
- Gross profit decreased by 18.6% to HK\$1.45 billion
- Gross profit margin decreased by 2.1% points to 28.6%
- Loss attributable to shareholders: HK\$0.19 billion

##### **RESULTS**

The board (the “Board”) of directors (the “Directors”) of Comba Telecom Systems Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020 (the “Current Year”), together with the comparative figures for the same period in 2019.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>REVENUE</b>	4	<b>5,057,240</b>	5,779,916
Cost of sales		<u>(3,612,059)</u>	<u>(4,003,732)</u>
Gross profit		<b>1,445,181</b>	1,776,184
Other income and gains	4	<b>183,442</b>	176,065
Research and development expenses	5	<b>(471,055)</b>	(346,785)
Selling and distribution expenses		<b>(542,321)</b>	(559,599)
Administrative expenses		<b>(571,519)</b>	(573,966)
Other expenses		<b>(243,540)</b>	(237,211)
Finance costs	6	<b>(69,352)</b>	(104,013)
Share of profit of a joint venture		<b>1,052</b>	–
<b>(LOSS)/PROFIT BEFORE TAX</b>	5	<b>(268,112)</b>	130,675
Income tax expense	7	<b>(23,011)</b>	(61,853)
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b><u>(291,123)</u></b>	<b><u>68,822</u></b>
Attributable to:			
Owners of the parent		<b>(194,104)</b>	151,749
Non-controlling interests		<b>(97,019)</b>	(82,927)
		<b><u>(291,123)</u></b>	<b><u>68,822</u></b>
<b>(LOSS)/EARNINGS PER SHARE</b>			
<b>ATTRIBUTABLE TO ORDINARY EQUITY</b>			
<b>HOLDERS OF THE PARENT</b>	9		
Basic		<b>HK(7.36) cents</b>	HK6.18 cents
Diluted		<b><u>HK(7.36) cents</u></b>	<b><u>HK6.12 cents</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
<b>(LOSS)/PROFIT FOR THE YEAR</b>	<b>(291,123)</b>	<b>68,822</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>119,150</u>	<u>(67,777)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>119,150</u>	<u>(67,777)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value, net of tax	<u>17,265</u>	<u>–</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>17,265</u>	<u>–</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<b><u>136,415</u></b>	<b><u>(67,777)</u></b>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>	<b><u>(154,708)</u></b>	<b><u>1,045</u></b>
Attributable to:		
Owners of the parent	(67,651)	92,698
Non-controlling interests	<u>(87,057)</u>	<u>(91,653)</u>
	<b><u>(154,708)</u></b>	<b><u>1,045</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,357,251</b>	1,320,293
Right-of-use assets		<b>283,745</b>	253,261
Goodwill		<b>253,077</b>	253,077
Deferred tax assets		<b>213,276</b>	204,064
Intangible assets		<b>881,565</b>	859,853
Equity investments designated at fair value through other comprehensive income		<b>38,563</b>	13,423
Equity investments designated at fair value through profit or loss		<b>30,851</b>	28,473
Restricted bank deposits		<b>26,366</b>	71,532
Investment in a joint venture		<b>11,856</b>	–
Total non-current assets		<b>3,096,550</b>	3,003,976
<b>CURRENT ASSETS</b>			
Inventories	<i>10</i>	<b>1,275,812</b>	1,191,244
Trade receivables	<i>11</i>	<b>4,130,899</b>	3,997,781
Notes receivable		<b>134,132</b>	156,822
Prepayments, other receivables and other assets		<b>835,805</b>	790,901
Financial assets at fair value through profit or loss		<b>1,475</b>	–
Restricted bank deposits		<b>133,702</b>	169,179
Cash and cash equivalents		<b>1,716,786</b>	1,867,186
Total current assets		<b>8,228,611</b>	8,173,113
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>12</i>	<b>4,030,825</b>	4,026,068
Other payables and accruals		<b>844,867</b>	1,092,456
Interest-bearing bank borrowings	<i>13</i>	<b>972,173</b>	115,086
Tax payable		<b>78,648</b>	82,835
Provision for product warranties		<b>74,313</b>	73,764
Total current liabilities		<b>6,000,826</b>	5,390,209
<b>NET CURRENT ASSETS</b>		<b>2,227,785</b>	2,782,904
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,324,335</b>	5,786,880

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	<i>13</i>	<b>410,300</b>	1,643,039
Deferred tax liabilities		<b>148,501</b>	152,415
Lease liabilities		<b>103,592</b>	94,409
Redeemable preferred shares in a subsidiary		<b>111,908</b>	–
		<hr/>	<hr/>
Total non-current liabilities		<b>774,301</b>	1,889,863
		<hr/>	<hr/>
Net assets		<b>4,550,034</b>	3,897,017
		<hr/>	<hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		<b>275,060</b>	248,599
Treasury shares		<b>(22,818)</b>	(22,818)
Reserves		<b>3,854,671</b>	3,235,428
		<hr/>	<hr/>
		<b>4,106,913</b>	3,461,209
		<hr/>	<hr/>
<b>Non-controlling interests</b>		<b>443,121</b>	435,808
		<hr/>	<hr/>
Total equity		<b>4,550,034</b>	3,897,017
		<hr/>	<hr/>

## NOTES

31 December 2020

### 1. CORPORATE AND GROUP INFORMATION

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

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

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

### 2.1 BASIS OF PREPARATION

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

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group’s plant and machinery have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$1,864,000 has been accounted for as a variable lease payment by derecognizing part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework<sup>2</sup></i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2<sup>1</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non- current<sup>3,5</sup></i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>2</sup></i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract<sup>2</sup></i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> No mandatory effective date yet determined but available for adoption

<sup>5</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

### 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has two reportable operating segments as follows:

- (a) Wireless telecommunications network system equipment and services
- (b) Operator telecommunication services

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on (loss)/profit before tax.

Year ended 31 December 2020	Wireless telecommunications network system equipment and services <i>HK\$'000</i>	Operator telecommunication services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	4,890,140	167,100	5,057,240
Loss before tax	(38,793)	(229,319)	(268,112)
Segment assets	10,424,674	1,841,353	12,266,027
Elimination			(940,866)
Total assets			<u>11,325,161</u>
Segment liabilities	6,620,041	1,095,952	7,715,993
Elimination			(940,866)
Total liabilities			<u>6,775,127</u>
Year ended 31 December 2019	Wireless telecommunications network system equipment and services <i>HK\$'000</i>	Operator telecommunication services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	5,624,052	155,864	5,779,916
Profit/(loss) before tax	299,600	(168,925)	130,675
Segment assets	10,047,303	2,015,179	12,062,482
Elimination			(885,393)
Total assets			<u>11,177,089</u>
Segment liabilities	7,134,953	1,030,512	8,165,465
Elimination			(885,393)
Total liabilities			<u>7,280,072</u>

## Geographical information

### (a) Revenue from external customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	3,642,695	4,320,503
Other countries/areas in Asia Pacific	705,940	656,860
Americas	393,318	493,159
European Union	282,179	200,436
Middle East	19,406	100,061
Other countries	13,702	8,897
	<u>5,057,240</u>	<u>5,779,916</u>

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

### (b) Non-current assets

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	1,286,932	1,072,745
Lao People's Democratic Republic	1,768,033	1,889,404
Other countries/regions	41,585	41,827
	<u>3,096,550</u>	<u>3,003,976</u>

## Information about major customers

Revenue of approximately HK\$1,059,345,000 (2019: HK\$1,734,492,000), HK\$498,019,000 (2019: HK\$603,275,000) and HK\$453,786,000 (2019: HK\$850,561,000) was derived from 3 major customers, which accounted for 20.9% (2019: 30.0%), 9.8% (2019: 10.5%) and 9.0% (2019: 14.7%) of the total revenue of the Group, respectively.

#### 4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Revenue</b>		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	4,883,239	5,575,561
Maintenance services	6,901	48,491
Provision of operator telecommunication services	167,100	155,864
	<u>5,057,240</u>	<u>5,779,916</u>

#### Revenue from contracts with customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Types of customers</b>		
PRC state-owned telecommunication operator groups	2,011,150	3,188,328
Other customers	3,046,090	2,591,588
	<u>5,057,240</u>	<u>5,779,916</u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	4,883,239	5,575,561
Services transferred over time	174,001	204,355
	<u>5,057,240</u>	<u>5,779,916</u>

An analysis of other income and gains is as follows:

	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Other income and gains</b>		
Bank interest income	<b>20,134</b>	16,157
Exchange gain, net	–	14,289
Government subsidies <sup>#</sup>	<b>120,933</b>	84,778
VAT refunds <sup>*</sup>	<b>12,574</b>	21,983
Gain on disposal of items of property, plant and equipment	<b>5,300</b>	752
Gross rental income	<b>9,671</b>	9,073
Penalty income	<b>4,070</b>	3,992
Scrapped and recycled items sales	<b>2,511</b>	2,771
Gain on equity investments designated at fair value through profit or loss	<b>590</b>	8,486
Gain on partial disposal of an equity investment designated at fair value through profit or loss	–	1,277
Technical services income	<b>5,182</b>	9,109
Others	<b>2,477</b>	3,398
	<b>183,442</b>	176,065

<sup>#</sup> 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.

<sup>\*</sup> During the years ended 31 December 2019 and 2020, 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 13%. Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

## 5. (LOSS)/PROFIT BEFORE TAX

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

	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold and services provided	<b>3,511,731</b>	3,787,652
Depreciation of property, plant and equipment	<b>203,821</b>	158,075
Depreciation of right-of-use assets	<b>38,853</b>	42,777
Amortization of computer software and technology and operating license	<b>31,690</b>	27,775
Research and development expenses:		
Deferred expenditure amortized*	<b>59,614</b>	58,980
Current year expenditure	<b>411,441</b>	346,785
	<b>471,055</b>	405,765
Lease payments not included in the measurement of lease liabilities	<b>12,717</b>	8,247
Auditor's remuneration	<b>4,461</b>	4,366
Employee benefit expense (including directors' remuneration)^:		
Salaries and wages	<b>1,037,158</b>	1,001,422
Staff welfare expenses	<b>45,989</b>	62,318
Equity-settled share option expense	<b>23,020</b>	27,622
Awarded share expenses	<b>9,619</b>	–
Pension scheme contributions (defined contribution schemes)#	<b>41,057</b>	73,441
	<b>1,156,843</b>	1,164,803
Gain on partial disposal of an equity investment designated at fair value through profit or loss	–	(1,277)
Net gain on equity investments designated at fair value through profit or loss	<b>(590)</b>	(8,486)
Loss on fair value change of financial assets at fair value through profit or loss	<b>3,847</b>	–
Exchange loss/(gain), net##	<b>23,042</b>	(14,289)
Write-down of inventories to net realizable value	<b>84,427</b>	121,722
Impairment of trade receivables and notes receivable	<b>81,465</b>	81,984
Provision for product warranties	<b>24,427</b>	28,559
Impairment of financial assets included in prepayments, other receivables and other assets	<b>8,737</b>	37,569
Gain on disposal of items of property, plant and equipment	<b>(5,300)</b>	(752)
Loss on disposal of intangible assets	–	191

- \* The amortization of deferred development expenses for the year was included in “Research and development expenses” in the consolidated statement of profit or loss. The amortization of deferred development expenses for the year ended 31 December 2019 was included in “Cost of sales” in the consolidated statement of profit or loss.
- ^ Staff costs capitalized into deferred development costs amounting to HK\$64,586,000 (2019: HK\$68,940,000) have not been included in the employee benefit expense.
- # At 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: Nil).
- ## Net exchange loss and net exchange gain are included in “Administrative expenses” and “Other income and gains” in the consolidated statement of profit or loss, respectively.

## 6. FINANCE COSTS

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank loans	<b>65,112</b>	94,645
Interest on lease liabilities	<b>3,542</b>	5,484
Finance costs on factored trade receivables	<b>565</b>	3,884
Others	<b>133</b>	–
	<b><u>69,352</u></b>	<b><u>104,013</u></b>

## 7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil). 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.

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current – Charge for the year		
Mainland China	<b>20,480</b>	157,063
Elsewhere	<b>13,391</b>	25,989
Current – overprovision in prior year	<b>(5,025)</b>	(9,899)
Deferred	<b>(5,835)</b>	(111,300)
	<b><u>23,011</u></b>	<b><u>61,853</u></b>

Under the relevant income tax law, the subsidiaries in Mainland China are subject to corporate income tax at a statutory rate of 25%, except for certain subsidiaries that entitled to the preferential tax rate of 15% based on the designation as High-New Technology Enterprises, on their respective taxable income during the year.

## 8. DIVIDENDS

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim – HK0.7 cent (2019: HK1 cent) per ordinary share	<b>19,224</b>	24,792
Proposed final – Nil (2019: HK1.2 cents) per ordinary share	<b>–</b>	29,832
	<b><u>19,224</u></b>	<b><u>54,624</u></b>

**9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,636,139,000 (2019: 2,456,884,000) in issue during the year.

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

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2020 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic loss per share amounts presented.

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>(Loss)/earnings</b>		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	<b>(194,104)</b>	151,749
	<b>Number of shares</b>	
	<b>2020</b>	2019
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculations	<b>2,636,139,000</b>	2,456,884,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	23,767,000
	<b>2,636,139,000</b>	2,480,651,000

**10. INVENTORIES**

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Raw materials	<b>315,394</b>	231,927
Project materials	<b>71,857</b>	53,282
Work in progress	<b>68,573</b>	45,882
Finished goods	<b>538,946</b>	559,704
Inventories on site	<b>281,042</b>	300,449
	<b>1,275,812</b>	1,191,244

## 11. TRADE RECEIVABLES

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	<b>4,679,771</b>	4,467,343
Impairment	<b>(548,872)</b>	(469,562)
	<b><u>4,130,899</u></b>	<u>3,997,781</u>

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

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 3 months	<b>1,630,971</b>	1,655,053
4 to 6 months	<b>467,199</b>	463,194
7 to 12 months	<b>625,451</b>	585,223
More than 1 year	<b>1,956,150</b>	1,763,873
	<b><u>4,679,771</u></b>	<u>4,467,343</u>
Provision for impairment	<b>(548,872)</b>	(469,562)
	<b><u>4,130,899</u></b>	<u>3,997,781</u>

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At beginning of year	<b>469,562</b>	436,595
Impairment losses	<b>82,008</b>	78,803
Amount written off as uncollectible	<b>(2,939)</b>	(40,103)
Exchange realignment	<b>241</b>	(5,733)
	<b><u>548,872</u></b>	<u>469,562</u>

## 12. TRADE AND BILLS PAYABLES

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 3 months	<b>2,085,758</b>	2,251,938
4 to 6 months	<b>622,696</b>	704,646
7 to 12 months	<b>423,889</b>	503,754
More than 1 year	<b>898,482</b>	565,730
	<b>4,030,825</b>	4,026,068

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

## 13. INTEREST-BEARING BANK BORROWINGS

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Analyzed into:		
Within 1 year or on demand	<b>972,173</b>	115,086
In the 2nd year	<b>410,300</b>	885,986
In the 3rd to 5th years, inclusive	–	645,198
Beyond 5 years	–	111,855
	<b>1,382,473</b>	1,758,125

As at 31 December 2020, loans denominated in Hong Kong dollars and RMB amounted to HK\$1,285,100,000 (2019: HK\$1,389,000,000) and HK\$97,373,000 (2019: HK\$369,125,000), respectively.

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

The Company and four of its wholly-owned subsidiaries, namely Comba Telecom Systems Investments Limited, Praises Holdings Limited, Comba Telecom Limited and Comba Telecom Systems Limited, were parties to the bank loans acting as guarantors, to guarantee punctual performance of the obligations under the loan facilities.

Bank loans as at 31 December 2020 bear interest at rates ranging from 3.05% to 3.10% (2019: from 3.49% to 5.49%) per annum.

## 14. EVENTS AFTER THE REPORTING PERIOD

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

## **ANNUAL GENERAL MEETING**

The annual general meeting (the “AGM”) of the Company will be held at 11:00 a.m. on 28 May 2021 at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong.

For the purpose of determining shareholders’ entitlements to attend and vote at the AGM, the register of members of the Company will be closed from 25 May 2021 to 28 May 2021 (both days inclusive), during which period no transfer of shares will be registered. The record date for determination of entitlements of the shareholders to attend and vote at the AGM will be on 28 May 2021. Shareholders whose names appear on the register of members of the Company on 28 May 2021 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 24 May 2021. The Notice of AGM will be published on the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.comba-telecom.com>) in due course.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS AND FINANCIAL REVIEW**

#### **Revenue**

The Group reported revenue amounting to HK\$5,057,240,000 (2019: HK\$5,779,916,000) for the Current Year, representing a decrease of 12.5% over the year ended 31 December 2019 (the “Prior Year”). The decrease was mainly attributable to the impact of the coronavirus disease 2019 (“COVID-19”) pandemic on the global economy, which affected the market demand and caused a varying degree of delays in the construction of telecommunication network across the world.

#### *By Customers*

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as “China Mobile”) was HK\$1,059,345,000 (2019: HK\$1,734,492,000), representing a decrease of 38.9% over the Prior Year, accounting for 20.9% of the Group’s revenue in the Current Year, compared with 30.0% in the Prior Year.

During the Current Year, revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as “China Unicom”) decreased by 46.6% over the Prior Year to HK\$453,786,000 (2019: HK\$850,561,000), accounting for 9.0% of the Group’s revenue in the Current Year, compared with 14.7% in the Prior Year.

During the Current Year, revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as “China Telecom”) decreased by 17.4% over the Prior Year to HK\$498,019,000 (2019: HK\$603,275,000), accounting for 9.8% of the Group’s revenue in the Current Year, compared with 10.5% in the Prior Year.

During the Current Year, revenue from China Tower Corporation Limited increased by 50.8% to HK\$443,230,000 (2019: HK\$293,998,000), and represented 8.8% of the Group’s revenue in the Current Year, compared with 5.1% in the Prior Year.

During the Current Year, revenue from other domestic customers increased by 16.5% to HK\$582,582,000 (2019: HK\$499,943,000) and represented 11.6% (2019: 8.6%) of the Group’s revenue.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 12.9% in aggregate to HK\$1,853,178,000 (2019: HK\$1,641,783,000) for the Current Year, accounting for 36.6% (2019: 28.4%) of the Group’s revenue in the Current Year. Despite the disruption to global economic activities due to the outbreak of COVID-19 across the world, the Group achieved business breakthroughs in certain major areas, thanks to the dedication of its employees. Meanwhile, the Group maintained and made progress in the cooperation with internationally-renowned core equipment manufacturers in the field of 5G. The Group remains positive about the future prospect of its international business.

During the Current Year, revenue from ETL Company Limited (“ETL”), a middle and small-sized operator in Laos and a non-wholly-owned subsidiary of the Group, grew by 7.2% to HK\$167,100,000 (2019: HK\$155,864,000), accounting for 3.3% (2019: 2.7%) of the Group’s revenue in the Current Year. The main reason for the increase was the improvement in the business since the completion and full commercialization of the nationwide 4.5G network in Laos by ETL.

#### *By Businesses*

During the Current Year, revenue from the antennas and subsystems business decreased by 35.8% over the Prior Year to HK\$1,802,940,000 (2019: HK\$2,808,365,000), accounting for 35.7% (2019: 48.6%) of the Group’s revenue in the Current Year. The decrease was mainly attributable to certain delays in global 5G construction due to the COVID-19 outbreak. With the availability of vaccine, the pandemic is being brought under control gradually and the construction of the 5G network enters a new stage of in-depth development. The Group will continue to increase resources devoted to meeting 5G demands and seize opportunities to reach a new height.

In order to reflect the Group’s products revenue nature more accurately, business with the nature of network system products in the Group’s revenue will be included in network system business starting from the Current Year. During the Current Year, revenue from the network system business grew by 13.8% over the Prior Year to HK\$1,223,557,000 (2019: HK\$1,074,846,000), accounting for 24.2% (2019: 18.6%) of the Group’s revenue. The increase was mainly attributable to the significant improvement in the overall operational efficiency of the network system business after its restructuring and optimization, as well as the good progress on the new indoor coverage business which recorded satisfying results from the launch of small cells.

During the Current Year, revenue from services increased by 8.2% over the Prior Year to HK\$1,595,379,000 (2019: HK\$1,474,707,000), accounting for 31.5% (2019: 25.5%) of the Group's revenue. The increase in revenue was mainly attributable to the fact that the Group optimized the servicing team and undertook higher quality construction projects. The Group expects that the service business will become more customized, intelligence-oriented and scenario-based in the 5G era.

### **Gross Profit**

During the Current Year, the Group's gross profit decreased by 18.6% over the Prior Year to HK\$1,445,181,000 (2019: HK\$1,776,184,000). The gross profit margin was 28.6% in the Current Year (2019: 30.7%), down by 2.1 percentage points compared with the Prior Year. The decrease in gross profit margin was mainly due to the Group's product income structure changed due to the delay in 5G construction under the COVID-19 pandemic, as well as related expenses such as trade tariff, transportation fee and others increased under the impact of COVID-19. In view of the gradual development of new 5G scenarios, the Group will launch new 5G products constantly to maintain a stable gross profit margin.

### **Research and Development ("R&D") Expenses**

During the Current Year, R&D expenses increased significantly by 35.8% over the Prior Year to HK\$471,055,000 (2019: HK\$346,785,000), representing 9.3% (2019: 6.0%) of the Group's revenue. As 5G technology enters the stage of in-depth development, the prospects of new application scenarios and models are promising. In order to enhance the competitiveness of new 5G products, the Group increased its 5G-related R&D investments and promoted innovation to capture business opportunities amidst the digitalization of the mobile telecommunications industry.

### **Selling and Distribution ("S&D") Expenses**

During the Current Year, S&D expenses dropped by 3.1% over the Prior Year to HK\$542,321,000 (2019: HK\$559,599,000), representing 10.7% (2019: 9.7%) of the Group's revenue. The Group upgraded its business expansion strategy to focus on more profitable projects and boost the efficiency of resources investment. The S&D expenses in the Current Year continued to improve as compared with the Prior Year.

### **Administrative Expenses**

During the Current Year, administrative expenses slightly decreased by 0.4% over the Prior Year to HK\$571,519,000 (2019: HK\$573,966,000), representing 11.3% (2019: 9.9%) of the Group's revenue. The decrease in administrative expenses was primarily due to the Group's commitment to optimizing the organizational management structure, which continued to boost its operational efficiency.

## **Finance Costs**

During the Current Year, finance costs significantly decreased by 33.3% over the Prior Year to HK\$69,352,000 (2019: HK\$104,013,000), representing 1.4% (2019: 1.8%) of the Group's revenue. The decrease in finance costs was mainly due to lower interest rates on bank borrowings and the decline in loans during the Current Year.

The management has constantly exercised prudence in managing credit risk and the level of bank borrowings as well as improving cash flows. To cope with the business growth, the management will pay close attention to the latest trends in the financing market, changes in interest rates and financial policies, and arrange the most appropriate financing for the Group, in order to improve the structure of its debts and thereby reduce its financing costs.

In addition, the management has leveraged the difference between interest rate and foreign exchange rate among different countries to minimize finance costs. As of 31 December 2020, the gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, was 12.2% compared with the gearing ratio of 15.7% as of 31 December 2019.

## **Other Expenses**

During the Current Year, other expenses increased by 2.7% over the Prior Year to HK\$243,540,000 (2019: HK\$237,211,000), representing 4.8% (2019: 4.1%) of the Group's revenue. The increase in other expenses was mainly due to the increase in depreciation of ETL's equipment.

## **Operating Loss**

In summary, during the Current Year, the operating loss of the Group was HK\$199,812,000 (2019: operating profit of HK\$234,688,000).

## **Tax**

During the Current Year, the Group's overall taxation charge of HK\$23,011,000 (2019: HK\$61,853,000) comprised an income tax expense of HK\$28,846,000 (2019: HK\$173,153,000) and a deferred tax credit of HK\$5,835,000 (2019: deferred tax credit of HK\$111,300,000). The decrease in the overall taxation charge was mainly due to the decrease in revenue for the Current Year.

Details of reduced tax rates enjoyed by major operating subsidiaries are set out in note 7 above.

## **Net Loss**

During the Current Year, the loss attributable to owners of the parent was HK\$194,104,000 (2019: net profit of HK\$151,749,000).

During the Current Year, the loss after tax from ETL (51% owned subsidiary of the Group) was HK\$230,391,000 while the loss after tax from ETL in the Prior Year was HK\$164,654,000.

## **Dividend**

In view of the Group's operating results for the Current Year and its long-term future development and flexibility of its financial position, the Board does not recommend the payment of 2020 final dividend (2019: HK1.2 cents).

## **PROSPECTS**

The past 2020 was a very exceptional year. The sudden outbreak of the COVID-19 pandemic has disrupted the economy and people's daily lives in various countries and regions. However, with the availability of the vaccine, the pandemic has gradually been brought under control, and the global economic recovery has gradually been under the dawn.

In terms of 5G development across the world, the deployment of the 5G commercial network was delayed to some extent and the whole industry slowed down in 2020. Nonetheless, certain countries and regions took the path of in-depth 5G development against adversity, thereby moving towards more extensive coverage and multiple commercial uses. Looking forward, the 5G network will facilitate the in-depth integration with vertical industries and empower all sectors for their intelligent upgrade, and thus becoming the new growth drivers for the digital economy.

## **Products and Solutions**

### *Antenna and Base Station Subsystems*

Leveraging its extensive experience in mobile telecommunication network construction and its supreme technology in lightweight multisystem multi-mode shared antenna developed over the years, the Group has a long-established leading position in the base station antenna market. It has been widely recognized by numerous domestic and overseas telecommunication network operators, equipment manufacturers and integrators, with its antenna business presence in more than 100 countries and regions globally.

While 5G network construction enters the stage of in-depth development, the deployment of the 5G network faces challenges such as multi-system sharing, limited antenna location spaces, and high cost of network construction and operation. This has set higher standards for 5G antenna. The Group has been actively engaged in the R&D of new technology and products. Following the developing directions towards small and lightweight, multi-frequency and multi-mode, the Group developed various 5G base station antenna solutions, such as the active 5G Massive MIMO antennas, 4G/5G (8TR) integrated convergent antenna series, FDD ultra-multi-port multi-system shared antennas, TDD/FDD hybrid multi-system shared antennas, "A + P" tower top solutions and other representative product series. These products cater for the customer needs in various scenarios and facilitate the building of the 5G network.

In spite of the global outbreak of the COVID-19 pandemic, the Group maintained a steady supply of 5G antennas for all sub6G frequencies during the Current Year. In particular, the Group delivered the scale supply of its 4G/5G (8TR) low-channel integrated convergent antennas, which was one of its major 5G product, in regions such as Europe and the Asia Pacific. The Group also supplied 5G AFU and dielectric filters in bulk, which drove the increase in the market share of 5G Massive MIMO products.

During the Current Year, the Group targeted the indoor coverage capacity of “5G broad indoor coverage” and introduced “innovative solutions of antenna for broad indoor coverage” such as the new building coverage antenna addressing the demand of residential areas coverage, and the 3D beam forming antenna addressing the coverage demand from large venues, transportation hubs and others. These products were in scale supply. In addition, the Group designed the “innovative antenna and subsystem solution for 5G coverage on roads” specifically for high-speed railway, expressways and tunnels, which has passed the preparation stage and commenced the large-scale application in certain provinces. As 5G indoor coverage develops and network operators increase 5G coverage on roads, these new customized antennas are expected to contribute to future business growth.

#### *Network Product System Solutions*

The Group has been committed to R&D and technology innovation of indoor coverage network products for many years and also possesses leading technologies such as innovative digital indoor distribution solutions designated for indoor wireless network coverage.

As the deployment of the 5G network advances, the development of indoor 5G network coverage is in the pipeline. Traditional indoor coverage faced difficulties such as insufficient indoor capacity, high frequency features and empowerment of vertical industries. As a result, innovative digital indoor coverage gained wide attention. The Group actively participated in the R&D of 5G technology and products, while formulating standards and promoting the industry. It also independently developed the end-to-end solution that integrated the 5G Cloud Small Cell, the lightweight MEC, the lightweight core network, the broad Internet of Things and the network management system.

The Group’s 5G open small cell series, which is the 5G open platform of the Group, is designed to meet the traditional needs of 5G coverage in everyday scenarios as well as the new requirements for “5G+Industrial Internet”. Currently, the product series has adopted common intelligent technology in the first batch of industrial internet application demonstration park project in the Guangdong Province and the technologies included cloud-based SMT management, clouded-based AGV navigation, clouded-based visual detection and clouded-based facial recognition. The product series was also awarded the First Prize and the Best Business Value Prize at the Guangdong Division of the 3rd “Blossom Cup” 5G Application Contest.

In addition, the Group achieved substantial business progress as it offered the end-to-end network platform solution to cater to the specific needs of vertical industries. It commenced the in-depth cooperation with major domestic industry leaders in the field of 5G+ and established a benchmark for demonstration. For instance, the Group achieved the mass commercialization of intelligent mining technology with facilitating underground deployment and normal business operation, while it also made its first step in the intelligent hospital business. The Group also launched pilot schemes for specialized 5G networks in the fields of industrial internet, energy and chemical industry, transportation and others.

Given the accelerating development of 5G indoor coverage and industrial applications, the Group will pursue continuous innovation and offer competitive products and comprehensive solutions to customers and partners, so as to achieve win-win outcomes through cooperation and promote the 5G-empowered digital transformation of the industry.

## **MARKET EXPANSION**

### **Operator Business in Mainland China**

Although the COVID-19 outbreak early last year delayed China's 5G rollout to a certain extent, the country took an irreversible step forward and stably maintained its leadership in the global 5G market. During the Current Year, the three major operators launched the 5G commercial network in an orderly manner. China has the largest number of 5G macro cells and 5G users in the world. Its 5G development has entered a new stage of more in-depth deployment.

Following the large-scale deployment of the 5G mobile network by the three major operators intensively, the construction of the 5G network faces new challenges. The width of network coverage has to be considered and the development of low-frequency 5G spectrum is underway. At the same time, the 700MHz 5G wireless network jointly built by China Mobile and China Broadcasting Network Group, as well as the 2.1GHz 5G wireless network jointly built by China Telecom and China Unicom, gradually step into the procurement stage. The deployment of 5G indoor coverage was widely discussed and the network construction model was gradually established, which further optimized the coverage of the 5G network. The Group will continue to give full play to its R&D strengths developed over the years. In addition, it will enhance the marketing strategies and provide comprehensive business support to customers in terms of R&D, production and product launch.

### **International Business**

The Group's international marketing platform expands the overseas market actively by exploring customer demands, developing the target market, researching for new products and maintaining competitiveness. The Group will continue the steady cooperation with international mobile operators and global leading telecom core equipment manufacturers in key areas of network construction. Apart from offering advanced 5G application solution to the world, it will tap into the demand for massive network construction in regions that lagged in 4G network development, so as to strengthen its position in the global market.

During the Current Year, the COVID-19 outbreak and the slowdown in the global economy posed headwinds to the Group. In spite of this, the Group achieved excellent results in the international business by capitalizing on its comprehensive strengths in product and technology. At the same time, its overall operation improved against the downward trend. In terms of mobile operation, some of its products attracted new major customers in key areas, which enhanced brand recognition. In order to maintain its position as the leading supplier, the Group continued to strengthen the close relationship with telecom core equipment manufactures in 5G development. Moreover, it seized market opportunities in several regions and boosted local sales performance significantly.

During the Current Year, the Group made substantial progress in the field of OpenRAN. It achieved groundbreaking results with core customers and laid a solid foundation for mass commercial use in the future. With the aim of promoting the OpenRAN industrial alliance, the Group will continue to expand the OpenRAN ecosystem, seek strategic partners, explore sales channels and conduct joint product R&D.

### **New Business**

The three major applications for 5G, namely enhancement of mobile broadband, large-scale internet of things, and ultra-reliable and low latency communication, will bring revolutionary changes to the mode of production and people's daily lives. During the Current Year, the Group continued to explore "5G+applications" and supported the effective integration of 5G technology with various aspects of intelligent manufacturing, including intelligent manufacturing workshop, flexible production lines and intelligent machinery. For instance, the Group made technology breakthroughs in the "5G+Mobile Robot" product series, established the AGV mainstream car models and commenced the related pilot projects. In the future, the Group will actively develop innovative business and make new contribution to business results.

### **CONCLUSION**

In the past year, global 5G network construction made slow progress on a difficult path. Fortunately, the vaccine rollout will bring the pandemic under control and facilitate global economic recovery. The Group will continue to promote new 5G technologies and develop new 5G products in a bid to seize opportunities for 5G construction and achieve another success.

Meanwhile, sticking to the core value of "creating ideal values for customers", the Group will continue to implement refined management, focus on high-value projects, maintain the lean allocation of resources, drive more efficient resources investment, boost operating efficiency and improve various operating indicators. It will strive to create value for customers and make unremitting efforts to achieve the Group's operation objectives and strategic goals.

## 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 2020, the Group had net current assets of HK\$2,227,785,000. Current assets comprised inventories of HK\$1,275,812,000, trade receivables of HK\$4,130,899,000, notes receivable of HK\$134,132,000, prepayments, other receivables and other assets of HK\$835,805,000, financial assets at fair value through profit or loss of HK\$1,475,000, restricted bank deposits of HK\$133,702,000 and cash and cash equivalents of HK\$1,716,786,000. Current liabilities comprised trade and bills payables of HK\$4,030,825,000, other payables and accruals of HK\$844,867,000, interest-bearing bank borrowings of HK\$972,173,000, tax payable of HK\$78,648,000 and provision for product warranties of HK\$74,313,000.

The average receivable turnover for the Current Year was 293 days compared to 258 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain customers which are granted with longer credit term. The balances also include retention money, which is for assurance that the product and service comply with agreed-upon specifications, of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Year was 407 days compared to 380 days for the Prior Year. The average inventory turnover for the Current Year was 125 days compared to 114 days for the Prior Year.

As at 31 December 2020, the Group's cash and bank balances were mainly denominated in RMB, HK\$ and US\$ while the Group's bank borrowings were mainly denominated in RMB and HK\$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a 3-year term loan facility agreement with certain financial institutions with the principal amount of HK\$980,000,000 on 30 January 2019 which was further increased to HK\$1,458,000,000 by way of accession. Details of bank borrowings are set out in note 13 above.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK\$ and US\$. In view of the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 31 December 2020, the Group has outstanding non-deliverable foreign currency option contracts in respect of Indonesian Rupiah, Indian Rupee and Brazilian Real with notional amount of US\$3,000,000, US\$5,000,000 and US\$5,000,000 respectively (31 December 2019: Nil).

The Group will also closely monitor the fluctuation of exchange rate in other currencies and will consider hedging such foreign currency should the need arise.

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 12.2% as at 31 December 2020 (31 December 2019: 15.7%).

In spite of the global outbreak of the COVID-19 pandemic, the Group's financial position remains sound with sufficient working capital.

## **MATERIAL ACQUISITIONS AND DISPOSALS/TRANSACTIONS**

On 29 May 2020, the Company adopted a share incentive scheme (the "Scheme") and shares of Comba Network Systems Company Limited (京信網絡系統股份有限公司) (formerly known as Comba Telecom Systems (China) Limited# (京信通信系統(中國)有限公司)) ("Comba Network", which is an indirect subsidiary of the Company) were awarded to the selected participants of the Scheme to recognize their contributions to the Group. The acquisitions of incentive shares of Comba Network by G Partnerships (which included Xin Han Tong No. 1 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通一號企業管理(珠海)合夥企業(有限合夥)), Xin Han Tong No. 3 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通三號企業管理(珠海)合夥企業(有限合夥)), Xin Han Tong No. 5 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通五號企業管理(珠海)合夥企業(有限合夥)) and Xin Han Tong No. 6 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通六號企業管理(珠海)合夥企業(有限合夥))) and Non-G Partnerships (which included Xin Han Tong No. 2 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通二號企業管理(珠海)合夥企業(有限合夥)), Xin Han Tong No. 7 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通七號企業管理(珠海)合夥企業(有限合夥)) and Xin Han Tong No. 8 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通八號企業管理(珠海)合夥企業(有限合夥))) under the Scheme constituted a deemed disposal (the "Deemed Disposal I") of the Company under which the Company's equity interest in Comba Network decreased by approximately 10.43% upon completion.

On 22 December 2020, Intel Asia Pacific Research and Development Ltd. (英特爾亞太研發有限公司) ("Intel AP") and Comba Network entered into a subscription agreement, pursuant to which Comba Network has agreed to allot and issue, and Intel AP has agreed to subscribe for 16,586,416 shares, representing 4.5% of the enlarged equity interest in Comba Network at a consideration of RMB94,241,000. The aforesaid allotment and issuance of shares by Comba Network also constituted a deemed disposal (the "Deemed Disposal II") of the Company.

Comba Network remains as subsidiary of the Company after the completion of the Deemed Disposal I and Deemed Disposal II.

Comba Network is principally engaged in manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services. It currently focuses on R&D, manufacturing and sales for network system products, including macro cells, small cells, related extended & in-depth coverage solutions and OpenRAN products as well as providing network solutions for 5G vertical industry.

For details of the Deemed Disposal I and Deemed Disposal II, please refer to the announcements of the Company dated 10 June 2020, 24 June 2020 and 22 December 2020.

Save as disclosed above, the Group has not conducted any other material acquisitions and disposals of subsidiaries and associated companies during the Current Year.

## **USE OF PROCEEDS**

On 28 April 2020, the top-up placing of a total of 282,000,000 ordinary shares of the Company of a nominal value of HK\$0.10 each at a placing price of HK\$3.05 per share to not less than six placees (who were professional, institutional and/or individual investors), together with their respective ultimate beneficial owners, are third parties independent of, not acting in concert and not connected with the Company or its connected persons (as defined under the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)) (the “Placing”) was completed.

On 8 May 2020, 150,000,000 and 80,000,000 new ordinary shares of the Company of a nominal value of HK\$0.10 each were issued and allotted to Prime Choice Investments Limited and Wise Logic Investments Limited, the substantial shareholders (as defined under the Listing Rules) of the Company, respectively at a subscription price of HK\$3.05 per share (the “Subscription”).

The Placing and Subscription were undertaken to supplement the Group’s long-term funding of its expansion and growth plan and to provide an opportunity to raise further capital for the Company whilst broadening the shareholder base and the capital base of the Company. The market price as stated in the daily quotations sheet issued by the Stock Exchange on 24 April 2020, being the date of execution of the agreement regarding the Placing and Subscription, was HK\$3.17 per share.

The net proceeds from the Placing and the Subscription as disclosed in the announcements of the Company dated 23 April 2020, 24 April 2020, 28 April 2020 and 8 May 2020 are approximately HK\$686,235,000 (after deducting the related costs and expenses) and the net subscription price of each share of the Company was approximately HK\$2.98 (after deducting the related costs and expenses). As at 31 December 2020, the Company has utilized the net proceeds, details are set out as follow:

Net proceeds raised HK\$'000	Intended use of the net proceeds	As at 31 December 2020		Expected timeline for utilizing the residual amount of net proceeds*
		Amounts utilized HK\$'000	Amounts unutilized HK\$'000	
515,390	(a) R&D of 5G small cells and OpenRAN, 5G antenna development and filter, and development of 5G+ vertical applications	144,357	371,033	by 30 June 2023
170,845	(b) expansion of production capacity, focusing on the production of 5G small cells and antenna products	44,496	126,349	by 30 June 2023
<u>686,235</u>		<u>188,853</u>	<u>497,382</u>	

\* The expected timeline for utilizing the residual amount of the net proceeds is based on the best estimation of the future market conditions made by the Group and will be subject to change based on future development of market conditions.

## RESTRICTED BANK DEPOSITS

Deposit balances of HK\$160,068,000 (31 December 2019: HK\$240,711,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

## CONTINGENT LIABILITIES

As at 31 December 2020, the Group had contingent liabilities of HK\$381,819,000 (31 December 2019: HK\$442,892,000), which mainly included guarantees given to banks in respect of performance bonds.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2020, the Group had approximately 6,000 staffs, out of which 1,300 staffs from ETL (31 December 2019: 6,000 staffs, out of which 1,300 staffs from ETL). The total staff costs, excluding capitalized development cost, for the Current Year were HK\$1,156,843,000 (31 December 2019: HK\$1,164,803,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal and regulatory requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, legal and regulatory requirements and in accordance with the share option scheme, share award scheme and share incentive scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staffs in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements in such jurisdictions. The Group also provides training to the staffs to improve their skills and develop their respective expertise. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management of the Group.

An employees incentive scheme is adopted by a subsidiary of the Company for the purpose of recognizing the contributions of its certain employees and persons.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Current Year.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Board reviewed 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 Listing Rules and considered that, during the Current Year, the Company has complied with all the Code Provisions.

## **DIRECTORS' SECURITIES TRANSACTIONS**

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

## AUDIT COMMITTEE

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

## PUBLICATION OF ANNUAL REPORT

2020 Annual Report containing all information required by the Listing Rules will be despatched to shareholders of the Company and published on the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.comba-telecom.com>) in due course.

# *for identification purpose*

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

Hong Kong, 25 March 2021

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