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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 2021

FINANCIAL HIGHLIGHTS

- Revenue increased by 16.1% to HK\$5.87 billion
- Gross profit decreased by 1.5% to HK\$1.42 billion
- Gross profit margin decreased by 4.4% points to 24.2%
- Loss attributable to shareholders: HK\$0.59 billion

RESULTS

The board (the “Board”) of directors (the “Director(s)”) 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 2021 (the “Current Year”), together with the comparative figures for the same period in 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*Year ended 31 December 2021*

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
REVENUE	4	5,869,666	5,057,240
Cost of sales		<u>(4,446,835)</u>	<u>(3,612,059)</u>
Gross profit		1,422,831	1,445,181
Other income and gains	4	193,320	183,442
Research and development expenses	5	(608,940)	(471,055)
Selling and distribution expenses		(597,546)	(542,321)
Administrative expenses		(601,073)	(571,519)
Other expenses		(428,256)	(243,540)
Finance costs	6	(43,761)	(69,352)
Share of profit of a joint venture		<u>6,968</u>	<u>1,052</u>
LOSS BEFORE TAX	5	(656,457)	(268,112)
Income tax expense	7	<u>(16,100)</u>	<u>(23,011)</u>
LOSS FOR THE YEAR		<u>(672,557)</u>	<u>(291,123)</u>
Attributable to:			
Owners of the parent		(592,567)	(194,104)
Non-controlling interests		<u>(79,990)</u>	<u>(97,019)</u>
		<u>(672,557)</u>	<u>(291,123)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		HK(21.43) cents	HK(7.36) cents
Diluted		<u>HK(21.43) cents</u>	<u>HK(7.36) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2021*

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(672,557)</u>	<u>(291,123)</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>127,360</u>	<u>119,150</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>127,360</u>	<u>119,150</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>16,960</u>	<u>17,265</u>
Gains on property revaluation, net of tax	<u>35,787</u>	<u>–</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>52,747</u>	<u>17,265</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>180,107</u>	<u>136,415</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(492,450)</u>	<u>(154,708)</u>
Attributable to:		
Owners of the parent	<u>(419,601)</u>	<u>(67,651)</u>
Non-controlling interests	<u>(72,849)</u>	<u>(87,057)</u>
	<u>(492,450)</u>	<u>(154,708)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*31 December 2021*

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,347,683	1,357,251
Right-of-use assets		216,989	283,745
Goodwill		242,773	253,077
Deferred tax assets		225,614	213,276
Intangible assets		806,267	881,565
Equity investments designated at fair value through other comprehensive income		62,813	38,563
Equity investments designated at fair value through profit or loss		90,534	30,851
Restricted bank deposits		26,195	26,366
Time deposits		257,405	–
Investment in a joint venture		18,354	11,856
		<hr/>	<hr/>
Total non-current assets		3,294,627	3,096,550
CURRENT ASSETS			
Inventories	<i>10</i>	1,356,335	1,275,812
Trade receivables	<i>11</i>	4,129,136	4,130,899
Notes receivable		97,109	134,132
Prepayments, other receivables and other assets		626,994	835,805
Financial assets at fair value through profit or loss		3,102	1,475
Restricted bank deposits		107,900	133,702
Time deposits		245,148	–
Cash and cash equivalents		1,652,228	1,716,786
		<hr/>	<hr/>
Total current assets		8,217,952	8,228,611
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	4,544,849	4,030,825
Other payables and accruals		623,223	844,867
Interest-bearing bank borrowings	<i>13</i>	644,739	972,173
Tax payable		73,527	78,648
Provision for product warranties		75,290	74,313
		<hr/>	<hr/>
Total current liabilities		5,961,628	6,000,826
NET CURRENT ASSETS			
		2,256,324	2,227,785
TOTAL ASSETS LESS CURRENT LIABILITIES			
		5,550,951	5,324,335

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	<i>13</i>	800,000	410,300
Deferred tax liabilities		164,063	148,501
Lease liabilities		60,300	103,592
Redeemable preferred shares in a subsidiary		342,771	111,908
		<hr/>	<hr/>
Total non-current liabilities		1,367,134	774,301
		<hr/>	<hr/>
Net assets		4,183,817	4,550,034
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		277,892	275,060
Treasury shares		(22,818)	(22,818)
Reserves		3,519,642	3,854,671
		<hr/>	<hr/>
		3,774,716	4,106,913
		<hr/>	<hr/>
Non-controlling interests		409,101	443,121
		<hr/>	<hr/>
Total equity		4,183,817	4,550,034
		<hr/>	<hr/>

NOTES

31 December 2021

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, 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 2021. 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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK\$551,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2021. There was no impact on the opening balance of equity as at 1 January 2021.

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 Framework¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{2,4}</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ¹

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ 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 before tax.

Year ended 31 December 2021	Wireless telecommunications network system equipment and services <i>HK\$'000</i>	Operator telecommunication services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	5,658,244	211,422	5,869,666
Loss before tax	(460,555)	(195,902)	(656,457)
Segment assets	10,762,215	1,546,954	12,309,169
Elimination			(796,590)
Total assets			<u>11,512,579</u>
Segment liabilities	7,138,576	986,776	8,125,352
Elimination			(796,590)
Total liabilities			<u>7,328,762</u>
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>

Geographical information

(a) Revenue from external customers

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Mainland China	4,061,715	3,642,695
Other countries/areas in Asia Pacific	892,888	705,940
Americas	593,214	393,318
European Union	263,916	282,179
Middle East	28,130	19,406
Other countries	29,803	13,702
	<u>5,869,666</u>	<u>5,057,240</u>

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

(b) Non-current assets

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Mainland China	1,758,979	1,286,932
Lao People's Democratic Republic	1,490,117	1,768,033
Other countries/regions	45,531	41,585
	<u>3,294,627</u>	<u>3,096,550</u>

Information about major customers

Revenue of approximately HK\$1,520,754,000 (2020: HK\$1,059,345,000), HK\$577,141,000 (2020: HK\$498,019,000) and HK\$493,095,000 (2020: HK\$453,786,000) was derived from 3 major customers, which accounted for 25.9% (2020: 20.9%), 9.8% (2020: 9.8%) and 8.4% (2020: 9.0%) 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	5,658,244	4,883,239
Maintenance services	–	6,901
Provision of operator telecommunication services	211,422	167,100
	<u>5,869,666</u>	<u>5,057,240</u>

Revenue from contracts with customers

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Types of customers		
PRC state-owned telecommunication operator groups	2,590,990	2,011,150
Other customers	3,278,676	3,046,090
	<u>5,869,666</u>	<u>5,057,240</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Timing of revenue recognition		
Goods transferred at a point in time	5,658,244	4,883,239
Services transferred over time	211,422	174,001
	<u>5,869,666</u>	<u>5,057,240</u>

An analysis of other income and gains is as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income and gains		
Bank interest income	28,685	20,134
Government subsidies [#]	72,270	120,933
VAT refunds ^{##}	6,377	12,574
Gain on disposal of items of property, plant and equipment	7,117	5,300
Gross rental income	14,004	9,671
Penalty income	3,563	4,070
Scrapped and recycled items sales	1,785	2,511
Gain on equity investments designated at fair value through profit or loss	27,564	590
Technical services income	25,563	5,182
Others	6,392	2,477
	<u>193,320</u>	<u>183,442</u>

[#] 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 2020 and 2021, Comba Software Technology (Guangzhou) Limited (“Comba Software”) and Comba Network Systems Company Limited (“Comba Network”), being designated as software enterprises, were 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 and Comba Network.

5. LOSS BEFORE TAX

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of inventories sold and services provided	4,195,798	3,511,731
Depreciation of property, plant and equipment ^{##}	213,701	203,821
Depreciation of right-of-use assets	45,472	38,853
Amortization of computer software and technology and operating license ^{##}	30,946	31,690
Research and development expenses:		
Deferred expenditure amortized	172,397	59,614
Current year expenditure	436,543	411,441
	608,940	471,055
Lease payments not included in the measurement of lease liabilities	12,778	12,717
Auditor's remuneration	3,571	4,461
Employee benefit expense (including directors' remuneration) [^] :		
Salaries and wages	1,055,182	1,037,158
Staff welfare expenses	44,373	45,989
Equity-settled share option expense	24,578	23,020
Awarded share expenses	27,667	9,619
Pension scheme contributions (defined contribution schemes)*	70,013	41,057
	1,221,813	1,156,843
Net gain on equity investments designated at fair value through profit or loss	(27,564)	(590)
Loss on fair value change of financial assets at fair value through profit or loss ^{###}	4,154	3,847
Exchange loss, net [#]	20,860	23,042
Write-down of inventories to net realizable value	231,617	84,427
Impairment of trade receivables and notes receivable ^{###}	257,317	81,465
Provision for product warranties	20,358	24,427
(Reversal)/impairment of financial assets included in prepayments, other receivables and other assets ^{###}	(4,219)	8,737
Gain on disposal of items of property, plant and equipment	(7,117)	(5,300)
Loss on fair value change of redeemable preferred shares in a subsidiary ^{###}	6,509	–
Impairment of goodwill ^{###}	10,304	–

- * At 31 December 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2020: Nil).
- ^ Staff costs capitalized into deferred development costs amounting to HK\$68,343,000 (2020: HK\$64,586,000) have not been included in the employee benefit expense.
- # Net exchange loss is included in “Administrative expenses” in the consolidated statement of profit or loss.
- ## The depreciation of certain property, plant and equipment and amortization of operating license amounting to HK\$127,803,000 (2020: HK\$120,395,000) and HK\$23,322,000 (2020: HK\$23,322,000) are included in “Other expenses” in the consolidated statement of profit or loss.
- ### Impairment of trade receivables and notes receivable, impairment of financial assets included in prepayments, other receivables and other assets, impairment of goodwill, loss on fair value change of financial assets at fair value through profit or loss and loss on fair value change of redeemable preferred shares in a subsidiary are included in “Other expenses” in the consolidated statement of profit or loss.

6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank loans	40,395	65,112
Interest on lease liabilities	3,264	3,542
Finance costs on factored trade receivables	102	565
Others	–	133
	43,761	69,352

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 (2020: 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.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current – Charge for the year		
Mainland China	9,044	20,480
Elsewhere	10,817	13,391
Current – underprovision/(overprovision) in prior year	51	(5,025)
Deferred	(3,812)	(5,835)
Total tax charge for the year	16,100	23,011

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interim – Nil (2020: HK0.7 cent) per ordinary share	–	19,224
Proposed final – Nil (2020: Nil) per ordinary share	–	–
	<u>–</u>	<u>19,224</u>

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

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,764,908,000 (2020: 2,636,139,000) in issue during the year.

The calculation of the diluted loss per share amounts is based on the loss 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 loss 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 2021 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 per share are based on:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculations	<u>(592,567)</u>	<u>(194,104)</u>
	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculations	<u>2,764,908,000</u>	<u>2,636,139,000</u>

10. INVENTORIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Raw materials	395,762	315,394
Project materials	54,534	71,857
Work in progress	58,570	68,573
Finished goods	493,566	538,946
Inventories on site	<u>353,903</u>	<u>281,042</u>
	<u>1,356,335</u>	<u>1,275,812</u>

11. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	4,852,632	4,679,771
Impairment	(723,496)	(548,872)
	<u>4,129,136</u>	<u>4,130,899</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. 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 3 months	2,137,743	1,630,971
4 to 6 months	533,755	467,199
7 to 12 months	609,352	625,451
More than 1 year	1,571,782	1,956,150
	<u>4,852,632</u>	<u>4,679,771</u>
Provision for impairment	(723,496)	(548,872)
	<u>4,129,136</u>	<u>4,130,899</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At beginning of year	548,872	469,562
Impairment losses	255,279	82,008
Amount written off as uncollectible	(95,721)	(2,939)
Exchange realignment	15,066	241
	<u>723,496</u>	<u>548,872</u>
At end of year	<u>723,496</u>	<u>548,872</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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 3 months	2,429,952	2,085,758
4 to 6 months	695,099	622,696
7 to 12 months	576,699	423,889
More than 1 year	843,099	898,482
	<u>4,544,849</u>	<u>4,030,825</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Analyzed into:		
Bank loans repayable		
Within 1 year or on demand	644,739	972,173
In the 2nd year	160,000	410,300
In the 3rd to 5th years, inclusive	640,000	–
	<u>1,444,739</u>	<u>1,382,473</u>

As at 31 December 2021, loans denominated in Hong Kong dollars and RMB amounted to HK\$1,255,975,000 (2020: HK\$1,285,100,000) and HK\$188,764,000 (2020: HK\$97,373,000), respectively.

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

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

As at 31 December 2021 and 2020, certain bank loans carried floating rate at Hong Kong Interbank Offered Rate ("HIBOR") plus a margin per annum. Bank loans as at 31 December 2021 bear interest at rates ranging from 1.45% to 3.80% (2020: from 3.05% to 3.10%) 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 30 May 2022 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 2022 to 30 May 2022 (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 30 May 2022. Shareholders whose names appear on the register of members of the Company on 30 May 2022 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 2022. 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

The Group recorded a loss attributable to owners of the parent company of HK\$592,567,000 during the Current Year. Owing to the prudent operation and financial principles consistently adopted by the Group and the impact of the pandemic, the recoverability of receivables was affected and provision for receivables of the Group for the Current Year shot up. The rapid technological development in the telecommunications industry resulted in an increase in provision for outdated, obsolete and sluggish inventories. In addition, in order to enhance its competitiveness, the Group has also increased its R&D expenditure in 5G technology and new products during the Current Year.

REVENUE

The Group reported revenue amounting to HK\$5,869,666,000 (2020: HK\$5,057,240,000) for the Current Year, representing an increase of 16.1% over the year ended 31 December 2020 (the “Prior Year”). The increase in revenue was mainly attributable to the successful tender for centralized procurement of related antenna products of the three major domestic telecom operators and the expansion of overseas business during the Current Year, in particular, satisfactory results have been attained for products in respect of domestic antenna and subsystem business and the overseas networks.

By Customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as “China Mobile Group”) was HK\$1,520,754,000 (2020: HK\$1,059,345,000), representing an increase of 43.6% over the Prior Year, accounting for 25.9% of the Group’s revenue in the Current Year, compared with 20.9% in the Prior Year.

During the Current Year, revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as “China Unicom Group”) increased by 8.7% over the Prior Year to HK\$493,095,000 (2020: HK\$453,786,000), accounting for 8.4% of the Group’s revenue in the Current Year, compared with 9.0% in the Prior Year.

During the Current Year, revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as “China Telecom Group”) increased by 15.9% over the Prior Year to HK\$577,141,000 (2020: HK\$498,019,000), accounting for 9.8% of the Group’s revenue in the Current Year, compared with 9.8% in the Prior Year.

During the Current Year, revenue from China Tower Corporation Limited (“China Tower”) decreased by 3.8% to HK\$426,244,000 (2020: HK\$443,230,000) as compared to the corresponding period last year, and represented 7.3% of the Group’s revenue in the Current Year, compared with 8.8% in the Prior Year.

During the Current Year, revenue from other domestic customers increased by 10.5% to HK\$643,514,000 (2020: HK\$582,582,000) and represented 11.0% (2020: 11.6%) of the Group’s revenue.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 7.8% in aggregate to HK\$1,997,497,000 (2020: HK\$1,853,178,000) for the Current Year, accounting for 34.0% (2020: 36.6%) of the Group’s revenue in the Current Year. The increase was mainly due to the expansion of the Group’s overseas business and the increase in sales of network products during the year.

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 26.5% to HK\$211,422,000 (2020: HK\$167,100,000), accounting for 3.6% (2020: 3.3%) 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 base station antennas and subsystems business increased by 34.0% over the Prior Year to HK\$2,416,328,000 (2020: HK\$1,802,940,000), accounting for 41.2% (2020: 35.7%) of the Group's revenue in the Current Year. The increase in revenue was mainly attributable to the fact that the Group acquired the centralized procurement projects of related 5G antenna products of major domestic telecom operators and completed the phasal launch and delivery of the awarded projects as scheduled during the year.

During the Current Year, revenue generated from the network system business increased by 2.1% over the Prior Year to HK\$1,248,949,000 (2020: HK\$1,223,557,000), accounting for 21.3% (2020: 24.2%) of the Group's revenue. The increase in revenue was mainly attributable to the continuous improvement in the overall operational efficiency of the Group's network system business segment after its restructuring and optimization, the good progress on the international new indoor coverage business as well as the expansion of vertical industrial application of Open RAN products and base station products which recorded satisfactory results.

During the Current Year, revenue from services increased by 6.8% over the Prior Year to HK\$1,704,335,000 (2020: HK\$1,595,379,000), accounting for 29.0% (2020: 31.5%) 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.

GROSS PROFIT

During the Current Year, the Group's gross profit decreased by 1.5% over the Prior Year to HK\$1,422,831,000 (2020: HK\$1,445,181,000). The gross profit margin was 24.2% in the Current Year (2020: 28.6%), down by 4.4 percentage points compared with the Prior Year. The decrease in the Group's gross profit margin during the Current Year was mainly attributable to the increase in provision for inventories and the prolonged impact of the COVID-19 pandemic on the global economy, which led to higher costs of operation, including the increase in costs as a result of the continuous rise in global bulk commodity prices, transportation fees and others and in turn a corresponding decrease in gross profit margin of some of its products. The Group will continue to launch new 5G products to maintain a stable gross profit margin and improve competitiveness.

RESEARCH AND DEVELOPMENT (“R&D”) EXPENSES

During the Current Year, R&D expenses increased significantly by 29.3% over the Prior Year to HK\$608,940,000 (2020: HK\$471,055,000), representing 10.4% (2020: 9.3%) of the Group's revenue, among which the amortization of the deferred R&D expenses was HK\$172,397,000 in the Current Year (2020: HK\$59,614,000). 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 continuously 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 increased by 10.2% over the Prior Year to HK\$597,546,000 (2020: HK\$542,321,000), representing 10.2% (2020: 10.7%) of the Group’s revenue. In view of the Group’s commitment to strengthening its business expansion, the relevant S&D expenses increased. The management expects such expenses to be improved to an optimal level in the future.

ADMINISTRATIVE EXPENSES

During the Current Year, administrative expenses increased by 5.2% over the Prior Year to HK\$601,073,000 (2020: HK\$571,519,000), representing 10.2% (2020: 11.3%) of the Group’s revenue. The management expects that the strategy of optimizing the Group’s organizational management structure on an ongoing basis will enhance the operational efficiency of the Company, and the expenses in this aspect will gradually improve to the most suitable level in the future.

FINANCE COSTS

During the Current Year, finance costs significantly decreased by 36.9% over the Prior Year to HK\$43,761,000 (2020: HK\$69,352,000), representing 0.7% (2020: 1.4%) of the Group’s revenue. The decrease in finance costs was mainly due to the fact that the Group optimized the loan portfolio and the decrease in the interests arising from the lower market interest rates 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 on the market, 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 at 31 December 2021, the gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, was 12.5% compared with the gearing ratio of 12.2% as at 31 December 2020.

OTHER EXPENSES

During the Current Year, other expenses increased by 75.8% over the Prior Year to HK\$428,256,000 (2020: HK\$243,540,000), representing 7.3% (2020: 4.8%) of the Group’s revenue. The increase in other expenses was mainly due to the increase in expenses in respect of receivables provision and others as a result of the impact of the pandemic on the recoverability of receivables and the goodwill of the Group’s subsidiaries was impaired during the Current Year.

OPERATING LOSS

In summary, due to the increase in provision for receivables, provision for inventories and R&D expenses during the Current Year, the operating loss of the Group was HK\$619,664,000 (2020: operating loss of HK\$199,813,000).

TAX

While the Group recorded a net loss for the Current Year, the Group's overall taxation charge amounted to HK\$16,100,000 (2020: HK\$23,011,000), which comprised an income tax expense of HK\$19,912,000 (2020: HK\$28,846,000) and a deferred tax credit of HK \$3,812,000 (2020: deferred tax credit of HK\$5,835,000), as a result of the taxable profit recorded by certain subsidiaries.

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

LOSS

During the Current Year, the loss attributable to owners of the parent of the Group (the "Loss") was HK\$592,567,000 (2020: Loss of HK\$194,104,000).

During the Current Year, the net loss from ETL (51% owned subsidiary of the Group) was HK\$192,905,000 while the net loss from ETL in the Prior Year was HK\$230,391,000.

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 2021 final dividend (2020: no payment of final dividend).

PROSPECTS

The past 2021 was a year full of challenges. The upheaval and spread of pandemic worldwide have disrupted the normal economic activities and people's daily lives in various countries and regions around the globe. Meanwhile, the pandemic made us realize that the development of digital communication network plays a critical role in the society. With 5G entering a new stage, not only consumers will be benefitted from the new applications, enterprises and industries may as well gradually leverage the low-latency and high-reliability features of 5G networks to realise intellectual upgrade of industries, making 5G a more essential part in our daily lives.

Looking forward, while certain countries and regions advanced their in-depth 5G development towards more extensive coverage and multiple commercial uses, the Group will seize the opportunities arising from the development of indoor 5G networks by operators to promote the in-depth integration with vertical industries to the next level.

Products and Solutions

Base Station Antenna and Subsystems

Leveraging its extensive experience in mobile telecommunication network construction and its supreme technology in the integration and miniaturisation of integrated multi-frequency and multisystem 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 antenna business presence in more than 100 countries and regions globally.

The deployment of the 5G-era network faces challenges such as limited antenna base station location spaces, and high cost of network construction and operation. This has set higher standards for multisystem integrated antenna. Following the technological development direction towards multi-frequency and multi-mode, integration and small and lightweight, the Group developed various base station antenna solutions in the 5G era that are applicable to different scenarios, such as the active 5G Massive MIMO antennas, 4G/5G convergent antenna product series, FDD ultra-multi-port multi-system shared antennas, and “A+P” integrated convergent antenna.

Leveraging the innovation of manufacturing processes and technologies, the Group has become highly competitive in the industry in terms of product performance indicators, volume, weight and product quality of highly integrated and complicated antennas. The major customer base of international market is gradually expanding with increased order size as compared to the Prior Period. The innovation-led 4G/5G(8TR) convergent antenna has become the mainstream solution for 5G network coverage. The 700M and 2.1G 5G base station antenna products in the domestic market have successively won the bids for certain antenna product projects of major telecom operators in Mainland China. In addition, the Group targeted the indoor coverage capacity of “5G broad indoor coverage” and introduced “innovative solutions of antenna for broad indoor coverage” and “innovative antenna and subsystem solution for 5G rail transit coverage” targeted to high-speed rail and tunnel coverage, which have commenced the large-scale application in various provinces in Mainland China.

Network Product System Solutions

Comba Network Systems Company Limited (“Comba Network”), an indirect subsidiary of the Company, is principally engaged in the manufacture and sale of wireless telecommunications network system equipment and provision of related comprehensive solutions. It currently focuses on R&D, manufacturing and sale of network system products, including macro cells, small cells, related extended & in-depth coverage solutions and Open RAN products as well as provision of network solutions for the 5G vertical industry.

Comba Network is the pioneer of small cells that possesses the fully independent R&D ability in software and hardware with general agreed-upon specifications for 4G/5G access network. Comba Network has diversified products with the depth and coverage capacity covering the entirely scenario-based high-power cells, micro cells, pico cells, femto cells and the co-constructing and sharing indoor coverage and Open RAN products in mobile telecommunication. In respect of 5G vertical industries, it provides fundamental networks and platform solutions catering to the specific needs and applications of the target industry, promotes the application and implementation of 5G in vertical industries such as industrial, mining and medical sectors and empowers the smart upgrade of the industries.

Leveraging years of extensive experience in the design, development and deployment of radio frequency related products of mobile telecommunication, Comba Network has launched the standardized and platform-based high-power remote radio unit (RRU) product series, which has the advantage of supporting the advanced technologies such as multi-carrier and multi-mode, high efficiency and high capacity. This product series adopts ORAN Alliance's fronthaul gateway and thereby fulfills inter-connection and compatibility with the globally advanced manufacturers of base-band. Furthermore, Comba Network has entered into strategic cooperation with the leading integrators in the industry. During the Current Year, Comba Network has launched the industry's first two multi-mode Open RAN remote radio units (RRU) that respectively adopt Open RAN dual-frequency and tri-frequency design, thereby continuing to lead the technological innovation of the industry.

Comba Network's 5G small cell products have commenced commercial trial of the 5G products of the three major operators in more than ten provinces in Mainland China. In addition, certain projects for the commercial use of 5G small cells in various provinces have been contracted. The value and advantage of our low-cost and rapid 5G network construction are highly recognized by customers. Comba Network will actively participate in the centralized procurement of China Mobile's 5G extended small cells.

MARKET EXPANSION

Operator Business in China

During the Current Year, the three major operators launched the 5G commercial network in an orderly manner. Mainland 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 gradually. Following the large-scale deployment of the 5G mobile network by the three major telecom operators intensively, the construction of the 5G network faces new challenges. The width of network coverage has to be considered during network construction and the development of low- to mid-frequency 5G spectrum is underway in an orderly manner. The Group successfully won the bids for certain antenna product projects of major telecom operators in Mainland China, securing considerable market share in both sectors, which has shown the customers' full recognition of the Group and showcased the Group's technological capability, innovation ability, manufacturing ability and comprehensive strength in the antenna sector and has laid a solid foundation for achieving the targeted performance in antenna and subsystem for this year and next year.

Furthermore, the deployment of 5G indoor coverage was widely discussed, which further optimized the coverage of the 5G network. In the first quarter of 2021, the Group successfully deployed its ComFlex Pro solution for 3 Hong Kong, enabling visitors and employees in various major landmark buildings in Hong Kong, China to enjoy 5G services seamlessly. The Group will continue to give full play to its R&D strengths developed over the years. In addition, it will continue to provide comprehensive business support to customers.

International Business

The Group's international marketing platform expands the overseas market actively by exploring customer demands, developing the target markets, developing new products and maintaining competitiveness of products. The Group achieved satisfactory results in the international business during the Current Year by capitalizing on its comprehensive strengths in product and technology. The Group will continue the steady cooperation with international mobile operators and globally leading telecom core equipment manufacturers for network construction in key regions. Apart from offering advanced 5G application solution to customers globally, it will tap into the demand for 4G massive network construction in various countries or regions in the world with imbalanced network development, so as to strengthen its position in the global market continuously. Meanwhile, the Group will continue to expand the Open RAN ecosystem, seek strategic partners, explore sales channels and conduct joint product R&D with an aim of promoting the growth of Open RAN business.

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 lifestyle in the future. During the Current Year, the Group continued to explore areas such as "5G+vertical industry applications" and promoted 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 technological breakthroughs in the "5G+Mobile Robot" product series, established the AGV mainstream car model series and commenced the related pilot projects. In the future, the Group will actively develop related innovative business and strive to make contributions to its business results.

CONCLUSION

In the past year, despite the upheaval and spread of pandemic worldwide, global economic activities managed to slowly recover, while 5G network construction resumed in an orderly manner. The Group will continue to proactively engage in the development of new 5G technologies and the research on advanced technologies and innovative products in the post-5G era so as to consistently provide products and services with high-cost efficiency for the 5G network upgrade of the global operators. By continuously improving the quality of the Company's operation, it will strive to create value for Shareholders and customers as a whole.

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 2021, the Group had net current assets of HK\$2,256,324,000. Current assets comprised inventories of HK\$1,356,335,000, trade receivables of HK\$4,129,136,000, notes receivable of HK\$97,109,000, prepayments, other receivables and other assets of HK\$626,994,000, financial assets at fair value through profit or loss of HK\$3,102,000, restricted bank deposits of HK\$107,900,000, time deposits of HK\$245,148,000 and cash and cash equivalents of HK\$1,652,228,000. Current liabilities comprised trade and bills payables of HK\$4,544,849,000, other payables and accruals of HK\$623,223,000, interest-bearing bank borrowings of HK\$644,739,000, tax payable of HK\$73,527,000 and provisions for product warranties of HK\$75,290,000.

The average receivable turnover for the Current Year was 257 days compared to 293 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. The average payable turnover for the Current Year was 352 days compared to 407 days for the Prior Year. The average inventory turnover for the Current Year was 108 days compared to 125 days for the Prior Year.

As at 31 December 2021, 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 also entered into 3-year term loan facility agreements with certain financial institutions during the Current Year. 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\$. As at 31 December 2021, the Group has outstanding non-deliverable foreign currency option contracts in respect of Thai Baht, Indian Rupee and Renminbi with notional amount of US\$4,000,000, US\$10,000,000 and RMB175,000,000 respectively (31 December 2020: 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).

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 12.5% as at 31 December 2021 (31 December 2020: 12.2%).

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

The Group has not conducted any 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 were 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 2021, the Company has utilized the net proceeds, details are set out as follow:

Net proceeds raised <i>HK\$'000</i>	Intended use of the net proceeds	Amounts utilized as at 31 December 2020 <i>HK\$'000</i>	Amounts utilized during the Current Year <i>HK\$'000</i>	Amounts unutilized as at 31 December 2021 <i>HK\$'000</i>	Expected timeline for utilizing the residual amount of net proceeds*
515,390	(a) R&D of 5G small cells and Open RAN, 5G antenna development and filter, and development of 5G+ vertical applications	144,357	165,761	205,272	by 30 June 2023
170,845	(b) expansion of production capacity, focusing on the production of 5G small cells and antenna products	44,496	60,330	66,019	by 30 June 2023
<u>686,235</u>		<u>188,853</u>	<u>226,091</u>	<u>271,291</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\$134,095,000 (31 December 2020: HK\$160,068,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group had contingent liabilities of HK\$276,836,000 (31 December 2020: HK\$381,819,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had approximately 5,500 staffs, out of which 1,300 staffs from ETL (31 December 2020: 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\$1,221,813,000 (31 December 2020: HK\$1,156,843,000). 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, SALE OR REDEMPTION 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

2021 Annual Report containing all information required by the Listing Rules will be despatched to shareholders of the Company and published on the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.comba-telecom.com>) in due course.

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

Hong Kong, 24 March 2022

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.