

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made by Comba Telecom Systems Holdings Limited (the “**Company**”) pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Please refer to the attached for the introductory document published by the Company on the website of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 30 December 2022 in connection with the proposed secondary listing of the issued ordinary shares as well as ordinary shares that may be issued under the existing share option scheme and share award scheme adopted by the Company on the SGX-ST.

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

Hong Kong, 30 December 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.



COMBA TELECOM SYSTEMS HOLDINGS LIMITED
京 信 通 信 系 統 控 股 有 限 公 司

(Company Registration Number: CR-117736)

(An exempted company incorporated in the Cayman Islands
with limited liability on 17 May 2002)



INTRODUCTORY DOCUMENT DATED 30 DECEMBER 2022

This Introductory Document is important. You should consider the information provided in this Introductory Document carefully, and consider whether you understand what is described in this Introductory Document. If you are in any doubt as to the action you should take, you should consult your legal, financial, tax or other professional adviser. You are responsible for your own investment choices.

This introductory document (the **"Introductory Document"**) is issued by Comba Telecom Systems Holdings Limited (the **"Company"**) in connection with the secondary listing by way of an introduction (the **"Introduction"**) of the ordinary shares of our Company (the **"Shares"**), the Shares issuable by our Company under the Share Award Scheme (as defined herein) and the Shares issuable by our Company upon conversion of the options granted under the 2013 Scheme (as defined herein) (collectively, the **"Introduction Shares"**) on the Main Board of the SGX-ST (as defined herein). This Introductory Document provides information on our Company and our Shares in compliance with the listing requirements of the SGX-ST. Our Shares are listed on The Stock Exchange of Hong Kong Limited (**"HKSE"**) under the stock code "2342" and will continue to be listed and traded on the HKSE following the completion of the Introduction.

An application has been made to the SGX-ST for permission to list all our Introduction Shares on the Main Board of the SGX-ST, which will be granted when we have been admitted to the Official List of the SGX-ST. There are certain risks in connection with an investment in our Shares. Please refer to the section entitled *"Risk Factors"* of this Introductory Document for further details. When our Shares become tradable on the SGX-ST, they will be quoted and traded in Singapore dollars. Our Shares will be traded in board lot size of 100 Shares.

Our Company has received a letter of eligibility from the SGX-ST for the listing and quotation of our Shares on the Main Board of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Introductory Document. Our Company's eligibility to list and admission to the Official List of the SGX-ST are not to be taken as an indication of the merits of the Introduction, our Group (as defined herein), our Company or our Shares.

This Introductory Document is issued for information purposes only. Nothing in this Introductory Document constitutes or shall be construed as an offer, or an invitation or a solicitation of an offer by us or on our behalf, to the public to subscribe for or purchase, any of our Shares. No Shares or any other securities shall be allotted or allocated on the basis of this Introductory Document. This Introductory Document is not a prospectus under Singapore law and has not been lodged with, or registered by, the Monetary Authority of Singapore (the **"MAS"**). The MAS assumes no responsibility for the contents of this Introductory Document. The MAS has not, in any way, considered the merits of our Shares being listed.

Issue Manager

UOBKayHian

UOB KAY HIAN PRIVATE LIMITED
(Company Registration No.: 197000447W)
(Incorporated in the Republic of Singapore)

TABLE OF CONTENTS

NOTICE TO INVESTORS.....	2
CORPORATE INFORMATION	10
DEFINED TERMS AND ABBREVIATIONS.....	13
GLOSSARY OF TECHNICAL TERMS	24
SUMMARY	28
SUMMARY OF THE INTRODUCTION.....	35
OUR LISTING ON THE SGX-ST	37
RISK FACTORS	42
DIVIDEND POLICY	83
CAPITALISATION AND INDEBTEDNESS	85
MARKET PRICE INFORMATION.....	87
EXCHANGE RATES AND EXCHANGE CONTROLS.....	89
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	93
TELECOMMUNICATIONS EQUIPMENT INDUSTRY AND PROSPECTS	117
HISTORY AND CORPORATE STRUCTURE	120
BUSINESS	134
REGULATIONS	176
MANAGEMENT AND CORPORATE GOVERNANCE.....	197
SHARE OWNERSHIP	224
DESCRIPTION OF SHARE CAPITAL	237
CONNECTED TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS	248
TAXATION	257
CLEARANCE AND SETTLEMENT.....	263
GENERAL AND STATUTORY INFORMATION.....	270
APPENDIX A – INDEPENDENT AUDITOR’S REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF COMBA TELECOM SYSTEMS HOLDINGS LIMITED AND ITS SUBSIDIARIES AS AT AND FOR EACH OF THE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021	A-1
APPENDIX B – INDEPENDENT REVIEW REPORT AND UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF COMBA TELECOM SYSTEMS HOLDINGS LIMITED AND ITS SUBSIDIARIES AS AT AND FOR THE SIX (6) MONTHS ENDED 30 JUNE 2022	B-1
APPENDIX C – COMPARISON OF SELECTED CAYMAN ISLANDS CORPORATE LAW PROVISIONS AND SINGAPORE CORPORATE LAW PROVISIONS.....	C-1
APPENDIX D – SUMMARY OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF OUR COMPANY AND CAYMAN ISLANDS CORPORATE LAW.....	D-1
APPENDIX E – LIST OF PAST AND PRESENT DIRECTORSHIPS	E-1

NOTICE TO INVESTORS

No person is authorised to give any information or to make any representation not contained in this Introductory Document, and any information or representation not so contained must not be relied upon as having been authorised by our Company or the Issue Manager (as defined herein). The delivery of this Introductory Document shall not under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in the affairs, conditions and prospects of our Group or our Shares since the date hereof. Where such changes occur and are material or required to be disclosed by law, the SGX-ST and/or any other regulatory or supervisory body or agency, our Company will make an announcement of the same to the SGX-ST. Recipients of this Introductory Document and all prospective investors in our Shares should take note of such announcements and documents and upon release of such announcements or documents shall be deemed to have notice of such changes. No representation, warranty or covenant, expressed or implied, is made by our Company, the Issue Manager or any of our or their respective affiliates, directors, officers, employees, agents, representatives or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this Introductory Document is, or shall be relied upon, as a promise, representation or covenant by our Company, the Issue Manager or any of our or their respective affiliates, directors, officers, employees, agents, representatives or advisers.

Recipients of this Introductory Document and all prospective investors in our Shares should not construe the contents of this Introductory Document or its appendices as legal, business, financial or tax advice. Recipients of this Introductory Document and all prospective investors in our Shares should consult their own professional advisers as to the legal, business, financial, tax and related aspects of holding and owning our Shares.

This Introductory Document has been prepared solely for the purpose of the Introduction and may not be relied upon by any persons for purposes other than the Introduction prior to the Listing Date (as defined herein) or for any purpose whatsoever on or after the Listing Date. This Introductory Document does not constitute, and nothing in this Introductory Document constitutes or shall be construed to constitute an offer, invitation or solicitation in any jurisdiction to subscribe for or purchase our Shares. This Introductory Document does not constitute a prospectus under Singapore law and has not been lodged with or registered by the MAS.

The use or distribution of this Introductory Document may be prohibited or restricted by law in certain jurisdictions. Our Company and the Issue Manager require persons into whose possession this Introductory Document comes to inform themselves of and to observe any such prohibition or restriction at their own expense and without liability to our Company and the Issue Manager. Persons to whom a copy of this Introductory Document has been issued shall not circulate to any other person, reproduce or otherwise distribute this Introductory Document or any information herein for any purpose whatsoever nor permit or cause the same to occur.

Certain Chinese names and characters, such as those of entities, properties, cities, governmental and regulatory authorities, laws and regulations and notices, have been translated into English or from English names and characters, solely for your convenience, and such translations should not be construed as representations that the English names actually represent Chinese names and characters or that the Chinese names actually represent the English names and characters.

Copies of this Introductory Document may be obtained on request, subject to availability, during office hours from:

UOB Kay Hian Private Limited
8 Anthony Road #01-01
Singapore 229957

A copy of this Introductory Document is also available on SGXNET at <http://www.sgx.com>.

FORWARD-LOOKING STATEMENTS

Certain statements in this Introductory Document constitute “forward-looking statements”. All statements other than statements of historical fact included in this Introductory Document, including those regarding our financial position and results, business strategies, plans and objectives of management for future operations (including development plans and dividends), are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future.

Forward-looking statements involve inherent risks and uncertainties. The forward-looking statements included in this Introductory Document reflect our current views with respect to future events and are not a guarantee of future performance. You can identify these forward-looking statements by words or phrases such as “may”, “will”, “expect”, “anticipate”, “aim”, “estimate”, “intend”, “plan”, “believe”, “likely to”, or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These include, but are not limited to:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- shortage of raw materials or increase in raw materials costs;
- effects of competition;
- slowing demand or additional capacity of supply;
- changes or volatility in foreign exchange, inflation and interest rates;
- changes in laws, regulations, or governmental policies applicable to our industry or business, including licensing requirements; and
- general economic, political, legal and regulatory conditions in the countries in which we operate.

You should read this Introductory Document and the documents that we refer to in this Introductory Document with the understanding that our actual future results may be materially different from or worse than what we expect. Other sections of this Introductory Document include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This Introductory Document contains certain data and information that we obtained from industry publications and reports generated by third party providers of market intelligence. We have not independently verified the accuracy or completeness of the data and information contained in these publications and reports. Statistical data in these publications also include projections based on a number of assumptions. The telecommunications equipment industry may not grow at the rate projected by market data, or at all. Failure of the industry to grow at the projected rate may have a material and adverse effect on our business and the market price of our Shares. If any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed under the sections entitled “*Risk Factors*”, “*Dividend Policy*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Business*” and “*Telecommunications Equipment Industry and Prospects*” of this Introductory Document. These forward-looking statements speak only as at the date of this Introductory Document. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We expressly disclaim any obligation or undertaking to release publicly any updates of or revisions to any forward-looking statement or financial information contained herein to reflect any change in the expectations of our Company with regard thereto or any change in events, conditions or circumstances on which any such statement or information is based, subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any other relevant regulatory or supervisory body or agency.

ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated in the Cayman Islands to take advantage of certain benefits associated with being a Cayman Islands exempted company, such as:

- the political and economic stability;
- an effective judicial system;
- a favourable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, certain disadvantages accompany an incorporation in the Cayman Islands. These disadvantages include, but are not limited to, that the Cayman Islands may have a less developed body of securities laws as compared to Hong Kong and Singapore and these securities laws may provide less protection to investors as compared to Hong Kong and Singapore.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of Hong Kong or Singapore, between us, our officers, Directors and Shareholders (as defined herein), be arbitrated.

Most of our operations are conducted in China and Hong Kong, and substantially all of our assets are located in China and Hong Kong. A majority of our Directors and Executive Officers (as defined herein) are nationals or residents of China and/or Hong Kong. As a result, depending on the subject of a claim, it may be difficult for a Shareholder within Hong Kong and/or Singapore to effect service of process upon these individuals (to the extent such service is to be effected in another jurisdiction), or to bring an action against us or these individuals in Hong Kong and/or Singapore (to the extent such action is to be brought in another jurisdiction), or to enforce against us or them judgements obtained in Hong Kong and/or Singapore courts (as judgements obtained in a foreign jurisdiction, as applicable), including judgements predicated upon the civil liability provisions of the securities laws of Hong Kong or Singapore.

There is uncertainty as to whether the courts of the Cayman Islands would (i) recognise or enforce against us judgements of courts of Hong Kong or Singapore predicated upon the civil liability provisions of the securities laws of Hong Kong or Singapore (as the case may be); and (ii) in original actions brought in the Cayman Islands, impose liabilities against us predicated upon the civil liability provisions of the securities laws of Hong Kong or Singapore, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgements obtained in Hong Kong or Singapore, a judgement *in personam* obtained in such jurisdiction will be recognised and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgement debt in the Grand Court of the Cayman Islands, provided such judgement (a) is given by a competent foreign court with jurisdiction to give the judgement; (b) imposes a specific positive obligation on the judgement debtor (such as an obligation to pay a liquidated *sumor performa* specified obligation); (c) is final and conclusive; (d) is not in respect of taxes, a fine or a penalty; (e) has not been obtained by fraud; and (f) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

The PRC

In addition, there is uncertainty as to whether the courts of the PRC would:

- recognise or enforce judgements of Singapore courts obtained against us or our Directors or Executive Officers predicated upon the civil liability provisions of the securities laws of Hong Kong or Singapore; or
- entertain original actions brought in each respective jurisdiction against us or our Directors or Executive Officers predicated upon the securities laws of Hong Kong and/or Singapore.

In addition, we understand that the recognition and enforcement of foreign judgements are provided for under the PRC Civil Procedures Law (《中华人民共和国民事诉讼法》). PRC courts may recognise and enforce foreign judgements in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgement is made or on principles of reciprocity between jurisdictions. The PRC does not have any treaties or other forms of reciprocity with the Cayman Islands and Singapore that provide for the reciprocal recognition and enforcement of foreign judgements. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgement against us or our Directors and Executive Officers if they decide that the judgement violates the basic principles of PRC law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgement rendered by a court in Singapore or in the Cayman Islands. Under the PRC Civil Procedures Law, foreign shareholders may originate actions based on PRC law against a company in the PRC for disputes if they can establish sufficient nexus to the PRC for a PRC court to have jurisdiction, and meet other procedural requirements, including, among others, the plaintiff must have a direct interest in the case, and there must be a concrete claim, a factual basis and a cause for the suit.

On 14 July 2006, the PRC Supreme People's Court and the Hong Kong government signed the Arrangement for the Reciprocal Recognition and Enforcement by the Courts of the Mainland and of the Hong Kong Special Administrative Region of the Judgements of Civil and Commercial Cases under Consensual Jurisdiction (《关于内地与香港特别行政区法院相互认可和执行当事人协议管辖的民商事案件判决的安排》) (the "**Arrangement**"), which came into effect on 1 August 2008. Under this Arrangement, where any PRC designated people's court or any designated Hong Kong court has made a final judgement with enforcement force requiring monetary payment in a civil and commercial case pursuant to a choice of court agreement in writing by parties, any party concerned may apply to the relevant PRC people's court or Hong Kong court for recognition and enforcement of the judgement. On 18 January 2019, the PRC Supreme People's Court and the

Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Cases by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《关于内地与香港特别行政区法院相互认可和执行民商事案件判决的安排》) (the “**New Arrangement**”), which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgements in a broader range of civil and commercial issues between Hong Kong and mainland China. The New Arrangement repealed the requirement for a choice of court agreement for bilateral recognition and enforcement. As of the Latest Practicable Date, the New Arrangement has not come into effect, and will only take effect after the promulgation of a judicial interpretation by the PRC Supreme People’s Court and the completion of the relevant procedures in Hong Kong. The New Arrangement will supersede the Arrangement upon its effectiveness. Therefore, before the New Arrangement comes into effect, it may be difficult to enforce a judgement rendered by a Hong Kong court in China if the parties of a dispute do not agree to enter into a choice of court agreement.

It will be, however, difficult for Singapore or Hong Kong Shareholders to originate actions against us in the PRC in accordance with PRC laws because we are incorporated under the laws of the Cayman Islands and it will be difficult for Singapore or Hong Kong Shareholders, by virtue only of their holding of our Shares, to establish a connection to the PRC for a PRC court to have jurisdiction as required under the PRC Civil Procedures Law.

Hong Kong

A foreign judgement may or may not be enforced in Hong Kong. A foreign judgement in civil and commercial matters (other than a PRC judgement) may be enforced in Hong Kong by one of two avenues, either through the statutory registration scheme based on reciprocity under the Foreign Judgments (Reciprocal Enforcement) Ordinance (Cap. 319 of the Laws of Hong Kong) (the “**FJRO**”), or under common law. The recognition and enforcement of PRC judgements in civil and commercial matters in Hong Kong are governed by the Mainland Judgments (Reciprocal Enforcement) Ordinance (Cap. 597 of the Laws of Hong Kong) (the “**MJREO**”).

The FJRO enables the enforcement of foreign judgements (other than PRC judgements) through a process of registration of judgements from the superior courts in designated countries and certain parts of the Commonwealth which have reciprocal arrangements with Hong Kong, provided that requirements under the FJRO are met. Such requirements include (among other things) that the foreign judgement is final and conclusive as between the parties thereto, and there is payable under the foreign judgement a sum of money not being a sum payable in respect of taxes or a fine or other penalty. A judgement made by, for example, a Singapore court having unlimited jurisdiction in civil and criminal matters can be enforced in Hong Kong under the FJRO. The defences that are available to a defendant in enforcement proceedings under the FJRO include lack of jurisdiction of the original court, failure of the defendant to receive notice of the proceedings before the original court in sufficient time to enable him to defend the proceedings and did not appear, fraud, and contrary to public policy.

Foreign judgements in civil and commercial matters deriving from countries other than those designated under the FJRO and PRC judgements which met the requirements under the MJREO, such as the United States and the Cayman Islands, may be enforced by common law, meaning that proceedings for enforcement of such a foreign judgement (e.g. a United States or a Cayman Islands judgement) may be commenced in the Hong Kong courts by writ. In a common law action for enforcement of a foreign judgement in civil and commercial matters in Hong Kong, the enforcement is subject to various conditions, including but not limited to, that the foreign judgement is a final judgement conclusive upon the merits of the claim, and such a judgement must be for a fixed sum and must also come from “competent” court as determined by the private international law rules applied by the Hong Kong courts. The defences that are available to a defendant in a common law action brought on the basis of a foreign judgement include lack of jurisdiction, breach of natural justice, fraud, and contrary to public policy.

In addition, recognition and enforcement of PRC judgements in Hong Kong are possible pursuant to the MJREO, provided that certain requirements are met, including but not limited to, that the judgement must be a final and conclusive judgement enforceable in mainland China, the judgement orders the payment of a sum of money (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty), the judgement was made by certain designated courts in the PRC, and the judgement is in connection with disputes arising from civil or commercial contracts. In addition, the judgement must be rendered pursuant to a written exclusive jurisdiction agreement in favour of the PRC courts (or any of them) entered into on or after 1 August 2008. On 18 January 2019, the New Arrangement was entered into, which expanded the scope of judgements that could be enforced between Hong Kong and the PRC. That arrangement will take effect on a future date to be announced, but the MJREO will continue to apply to a “choice of court agreement” in writing made before the commencement of that arrangement.

Singapore

Generally, money judgements and non-money judgements issued by the courts in Hong Kong are enforceable by way of registration in the Singapore courts, pursuant to the Reciprocal Enforcement of Foreign Judgments Act 1959 (the “**REFJA**”) read with the Reciprocal Enforcement of Foreign Judgments (Hong Kong Special Administrative Region of the People’s Republic of China) Order. Registration of a Hong Kong judgement is subject to certain conditions being met.

However, there is uncertainty as to whether judgements of courts in Hong Kong based upon the civil liability provisions of the securities laws of Hong Kong will be recognised or enforced by the Singapore courts, and there is doubt as to whether the Singapore courts will enter judgements in original actions brought in the Singapore courts based solely on the civil liability provisions of these securities laws.

A “money judgement” is defined in the REFJA as “a judgement under which a sum of money is payable, not being a sum payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty”; while a “non-money judgement” is defined in the REFJA as “a judgement that is not a money judgement, but does not include a judgement under which a sum of money is payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty”. In other words, judgements that are registrable under the REFJA exclude “a judgement under which a sum of money is payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty”.

The Singapore courts may not recognise or enforce any judgement from the courts of Hong Kong against us, our Directors and Executive Officers, based upon the civil liability provisions of the securities laws of Hong Kong, to the extent that the judgement is punitive or penal. It is uncertain as to whether a judgement obtained from Hong Kong courts under civil liability provisions of the securities law of Hong Kong would be determined by the Singapore courts to be or not to be punitive or penal in nature. Such a determination has yet to be made by any Singapore court.

PRESENTATION OF FINANCIAL AND STATISTICAL INFORMATION

This Introductory Document contains the (i) audited consolidated financial statements of our Company and its subsidiaries as of and for each of the years ended 31 December 2019, 2020 and 2021, as set out in Appendix A to this Introductory Document (the “**Audited Consolidated Financial Statements**”) and (ii) the unaudited interim condensed consolidated financial statements of our Company and its subsidiaries as of and for the six (6) months ended 30 June 2022 as set out in Appendix B to this Introductory Document (the “**Unaudited Interim Condensed Consolidated Financial Statements**”). Investors should exercise care and caution when viewing these financial statements. In the event of doubt, investors should consult their own professional advisers.

The Audited Consolidated Financial Statements and the Unaudited Interim Condensed Consolidated Financial Statements of our Company have been prepared by our Company in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accounts (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Audited Consolidated Financial Statements have been audited by Ernst & Young (“**EY**” or the “**Independent Auditor**”), and the audit is conducted in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

We have obtained a waiver from the SGX-ST from compliance with Rule 211A(2) of the Listing Manual. See the section entitled “*Our Listing on the SGX-ST*” of this Introductory Document for more information. Accordingly, neither our Audited Consolidated Financial Statements nor our Unaudited Interim Condensed Consolidated Financial Statements have been reconciled or restated to SFRS(I) (as defined herein), IFRS (as defined herein) or US GAAP (as defined herein). The Independent Auditor is of the opinion that no material adjustments are required to restate the Audited Consolidated Financial Statements in accordance with IFRS for the Track Record Period (as defined herein), and that there are no material differences between HKSA and ISA (as defined herein). The Independent Auditor has also audited and rendered an unqualified audit report in respect of the Audited Consolidated Financial Statements and has also reviewed and rendered an unqualified review report in respect of the Unaudited Interim Condensed Consolidated Financial Statements. Post-Introduction, the Audited Consolidated Financial Statements and the Unaudited Interim Condensed Consolidated Financial Statements of our Company will not be reconciled or restated to SFRS(I), IFRS or US GAAP or audited in accordance with the SSA (as defined herein), ISA or US GAAS (as defined below), as our Company will continue to comply with such requirements in relation to accounting and auditing standards applicable to our Company under Hong Kong’s periodic disclosure regulations. Subject to the Hong Kong’s periodic disclosure regulations, it is currently expected that our Company’s periodic financial reports will continue to be prepared (and released on the HKSE and the SGX-ST) in accordance with HKFRS and audited in accordance with the HKSA.

Figures in this Introductory Document have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

We maintain our accounts and publish our financial statements in Hong Kong dollars. This Introductory Document contains translations of Hong Kong dollars amounts into Singapore dollars solely for the convenience of the reader. Unless otherwise indicated, Hong Kong dollar amounts in this Introductory Document have been translated into Singapore dollars based on the exchange rate of HK\$5.65 = S\$1.00, quoted by Bloomberg L.P.⁽¹⁾ as of the Latest Practicable Date. However, these translations should not be construed as representations that Hong Kong dollar amounts have been, would have been or could be converted into Singapore dollars or that Singapore dollar amounts have been, would have been or could be converted into Hong Kong dollars at those rates or any other rate or at all. See the section entitled “*Exchange Rates and Exchange Controls*” of this Introductory Document for certain historical information on the exchange rate between the Hong Kong dollar and Singapore dollar.

Note:

- ⁽¹⁾ Source: Bloomberg L.P. Bloomberg L.P. has not provided its consent, for the purposes of Section 249 of the SFA, to the inclusion of the information extracted from its database, and is therefore not liable for such information under Sections 253 and 254 of the SFA. While our Company and the Issue Manager have taken reasonable actions to ensure that the information from Bloomberg L.P.’s database has been reproduced in its proper form and context, and that such information is extracted accurately and fairly in this Introductory Document, neither our Company, our Directors, the Issue Manager nor any other party has conducted an independent review of the information contained in that database or verified the accuracy of the contents of the relevant information. However, these translations should not be construed as representations that Hong Kong dollars and Singapore dollar amounts have been, would have been or could be converted into Singapore dollars or Hong Kong dollars (as the case may be), or that Singapore dollar amounts have been, would have been or could be converted into Hong Kong dollars at those rates or any other rate or at all.

MARKET AND INDUSTRY INFORMATION

We derive certain facts and statistics in this Introductory Document relating to the telecommunications equipment industry globally from various publicly available industry, government and research publications. This Introductory Document also includes industry data and forecasts that we have obtained from such industry publication and surveys, reports of governmental agencies and internal company surveys. We have taken reasonable action to ensure that the facts and statistical data used in this Introductory Document have been extracted from these sources in their proper form and context. However, we have not verified the accuracy of the information extracted nor have we obtained the specific consent of these sources for the inclusion of such information in this Introductory Document.

Investors should note that market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Fok Tung Ling (Chairman and Executive Director)
Mr. Zhang Yue Jun (Vice Chairman and Executive Director)
Mr. Xu Huijun (Executive Director and Group President)
Mr. Chang Fei Fu (Executive Director and Group CFO)
Mr. Bu Binlong (Executive Director)
Ms. Huo Xinru (Executive Director)
Mr. Wu Tielong (Non-Executive Director)
Mr. Lau Siu Ki, Kevin (Independent Non-Executive Director)
Dr. Lin Jin Tong (Independent Non-Executive Director)
Ms. Ng Yi Kum (Independent Non-Executive Director)
Ms. Wong Lok Lam (Independent Non-Executive Director)

COMPANY SECRETARY

Mr. Chan Siu Man
(Company Secretary of our Company, a member of the HKICPA and The Association of Chartered Certified Accountants)

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 611, Building 8W
Hong Kong Science Park
Pak Shek Kok, New Territories
Hong Kong

REGISTRATION NUMBER

CR-117736

ISSUE MANAGER

UOB Kay Hian Private Limited
8 Anthony Road #01-01
Singapore 229957

LEGAL ADVISER TO OUR COMPANY AS TO SINGAPORE LAW

WongPartnership LLP
12 Marina Boulevard, Level 28
Marina Bay Financial Centre Tower 3
Singapore 018982

LEGAL ADVISER TO OUR COMPANY AS TO CAYMAN ISLANDS LAW

Travers Thorp Alberga
1205A The Centrium
60 Wyndham Street
Central, Hong Kong

**LEGAL ADVISER TO OUR
COMPANY AS TO HONG KONG
LAW**

Reed Smith Richards Butler LLP
17th Floor, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay, Hong Kong

**LEGAL ADVISER TO OUR
COMPANY AS TO PRC LAW**

Beijing Jincheng Tongda & Neal Law Firm
10th Floor, China World Tower A
No. 1 Jianguo Menwai Avenue
Chaoyang District, Beijing 100004
People's Republic of China

**LEGAL ADVISER TO THE ISSUE
MANAGER AS TO SINGAPORE
LAW**

Rajah & Tann Singapore LLP
9 Straits View
#06-07 Marina One West Tower
Singapore 018937

**LEGAL ADVISER TO THE ISSUE
MANAGER AS TO PRC LAW**

Zhong Lun Law Firm
6/10/11/16/17F, Two IFC, 8 Century Avenue
Pudong New Area, Shanghai 200120
People's Republic of China

INDEPENDENT AUDITOR

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong
Partner-in-charge: Mr. M.L. Chau
(practising certificate holder of the HKICPA)

**CAYMAN ISLANDS PRINCIPAL
SHARE REGISTRAR AND
TRANSFER OFFICE**

Suntera (Cayman) Limited
Suite 3204 Unit 2A
Block 3 Building D
P.O. Box 1586
Gardenia Court Camana Bay
Grand Cayman KY1-1100
Cayman Islands

**HONG KONG BRANCH SHARE
REGISTRAR AND TRANSFER
OFFICE**

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

**SINGAPORE SHARE TRANSFER
AGENT**

In.Corp Corporate Services Pte. Ltd.
30 Cecil Street
#19-08 Prudential Tower
Singapore 049712

**PRINCIPAL BANKERS OF OUR
GROUP**

**The Hongkong and Shanghai Banking Corporation
Limited**

Level 10 HSBC Main Building
1 Queen's Road Central
Central Hong Kong

Bank of China (Hong Kong) Limited

Bank of China Tower
1 Garden Road
Central Hong Kong

Hang Seng Bank Limited

83 Des Voeux Road Central
Central Hong Kong

DBS Bank (Hong Kong) Limited

18th Floor The Center
99 Queen's Road Central
Central Hong Kong

Bank of China Limited

Guangzhou Development Zone Branch
2 Qingnian Road GETD District
Guangzhou PRC

Industrial and Commercial Bank of China Limited

GETD District Sub-branch
No. 2 Xiangxue Road
Kaichuang High Road North
Guangzhou Science City
Luogang District
Guangzhou PRC

China Merchants Bank Co Ltd

Guangzhou Branch Gaoxin Sub-branch
1st Floor Southern Communication Plaza
1 Huajing Road
Guangzhou PRC

Agricultural Bank of China

Guangzhou Beixiu Sub-branch
No 133 Xiaobei Road
Yuxiu District
Guangzhou PRC

DEFINED TERMS AND ABBREVIATIONS

The following definitions of certain terms and abbreviations, when used in this Introductory Document, shall bear the same meanings as set forth below unless otherwise defined herein or the context otherwise requires:

Our Group

Comba China	:	Comba Telecom Systems (China) Limited (京信通信系统(中国)有限公司) (now known as Comba Network)
Comba Consulting	:	Comba Business Consulting (Guangzhou) Limited (京信企业管理咨询(广州)有限公司)
Comba Guangzhou	:	Comba Telecom Technology (Guangzhou) Limited (京信通信技术(广州)有限公司)
Comba Network	:	Comba Network Systems Company Limited (京信网络系统股份有限公司) (formerly known as Comba China)
Comba Network Group	:	Comba Network and its subsidiaries
Comdi Companies	:	Collectively, Comdi Communication Technology Ltd (京迪通信技术有限公司) and Nanjing Comdi Communication Equipment Co., Ltd. (南京京迪通信设备有限公司)
Company	:	Comba Telecom Systems Holdings Limited (京信通信系统控股有限公司)
CTSL	:	Comba Telecom Systems Limited (京信通信系统有限公司)
ETL	:	ETL Company Limited

General

2013 Scheme	:	The share option scheme adopted by our Company on 3 June 2013
6M2021	:	Six (6)-month period ended 30 June 2021
6M2022	:	Six (6)-month period ended 30 June 2022
ACCA	:	The Association of Chartered Certified Accountants
AMR	:	Administration for market regulation (市场监督管理局)
APAC	:	Asia-Pacific
Articles of Association	:	The amended and restated articles of association of our Company

<i>Audited Consolidated Financial Statements</i>	:	The audited consolidated financial statements of our Company as of and for each of the years ended 31 December 2019, 2020 and 2021
<i>Awarded Share(s)</i>	:	The awarded share(s) under the Share Award Scheme
<i>Board or Board of Directors</i>	:	The Board of Directors of our Company as at the date of this Introductory Document, unless otherwise stated
<i>Board Diversity Policy</i>	:	The board diversity policy of our Company
<i>Brexit</i>	:	Brexit refers to the United Kingdom's withdrawal from the European Union after voting to do so in a June 2016 referendum
<i>CALA</i>	:	Caribbean & Latin America
<i>Cayman Islands Companies Act</i>	:	The Companies Act (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
<i>CCASS</i>	:	The Central Clearing and Settlement System established and operated by HKSCC
<i>CCASS Clearing Participant</i>	:	A person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
<i>CCASS Custodian Participant</i>	:	A person admitted to participate in CCASS as a custodian participant
<i>CCASS Investor Participant</i>	:	A person admitted to participate in CCASS as an investor participant, who may be an individual, joint individuals or a corporation
<i>CCASS Participant</i>	:	A CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
<i>CCASS Rules</i>	:	The General Rules of CCASS and CCASS Operational Procedures, as amended from time to time
<i>CDP</i>	:	The Central Depository (Pte) Limited
<i>CDP Depositors</i>	:	Depositors holding Shares under direct accounts with CDP or securities sub-accounts with a Depository Agent
<i>CFO</i>	:	Chief Financial Officer
<i>China Mobile</i>	:	China Mobile Communications Corporation (中国移动通信集团有限公司)
<i>China Telecom</i>	:	China Telecommunications Corporation (中国电信集团有限公司)

China Tower	:	China Tower Corporation Limited (中国铁塔股份有限公司)
China Unicom	:	China United Network Communications Group Company Limited (中国联合网络通信集团有限公司)
Code Provisions	:	The code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules
Companies Ordinance	:	Companies Ordinance (Cap. 622) of Hong Kong, as amended, supplemented or otherwise modified from time to time
COVID-19	:	Coronavirus Disease 2019
CSRC	:	The China Securities Regulatory Commission
Directors	:	The directors of our Company as at the date of this Introductory Document, unless otherwise stated
Dividend Policy	:	The dividend policy adopted by our Board on 31 December 2018
Double Taxation Avoidance Arrangement	:	The Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (《内地和香港特别行政区关于对所得避免双重征税和防止偷漏税的安排》), as amended, supplemented or otherwise modified from time to time
EIT	:	Enterprise Income Tax
EIT Implementation Regulations	:	The Regulations for the Implementation of the Enterprise Income Tax Law (《中华人民共和国企业所得税法实施条例》), promulgated on 6 December 2007 and came into effect on 1 January 2008, and was most recently amended on 23 April 2019 which became effective on the same date, as amended, supplemented or otherwise modified from time to time
EIT Law	:	The Enterprise Income Tax Law of the PRC (《中华人民共和国企业所得税法》), promulgated on 16 March 2007 and came into effect on 1 January 2008, and was most recently amended on 29 December 2018 which became effective on the same date, as amended, supplemented or otherwise modified from time to time
Environmental Protection Law	:	The Environmental Protection Law of the PRC (《中华人民共和国环境保护法》), as amended, supplemented or otherwise modified from time to time

ESG	:	Environmental, social, and corporate governance
ETDZ	:	Economic and Technological Development Zone
Executive Officers	:	The senior management of our Company as at the date of this Introductory Document, which are named in the section entitled “ <i>Management and Corporate Governance – Directors and Executive Officers – Executive Officers</i> ”, unless otherwise stated
Existing G Partnership(s)	:	XHT No. 1 Partnership, XHT No. 3 Partnership, XHT No. 5 Partnership and XHT No. 6 Partnership
EY or Independent Auditor	:	Ernst & Young
FIE	:	Foreign Investment Enterprises
Foreign Investment Law	:	The PRC Foreign Investment Law (《中华人民共和国外商投资法》), promulgated by the National People’s Congress in March 2019, which became effective on 1 January 2020, as amended, supplemented or otherwise modified from time to time
FRC	:	Financial Reporting Council
FY	:	Financial year ended 31 December
FY2019	:	Financial year ended 31 December 2019
FY2020	:	Financial year ended 31 December 2020
FY2021	:	Financial year ended 31 December 2021
FY2022	:	Financial year ending 31 December 2022
GST	:	Goods and services tax
G Limited Partner(s)	:	Limited partner(s) of the G Limited Partnerships
G Partnerships	:	XHT No. 1 Partnership, XHT No. 3 Partnership, XHT No. 5 Partnership, XHT No. 6 Partnership and the New G Partnerships
HKAS	:	Hong Kong Accounting Standards
HKFRS	:	Hong Kong Financial Reporting Standards
HKICPA	:	The Hong Kong Institute of Certified Public Accountants
HKSA	:	Hong Kong Standard on Auditing

<i>HKSCC</i>	:	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited
<i>HKSCC Nominees</i>	:	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
<i>HKSE</i>	:	The Stock Exchange of Hong Kong Limited
<i>Hong Kong or the Hong Kong Special Administrative Region</i>	:	The Hong Kong Special Administrative Region of the PRC
<i>Hong Kong Branch Share Registrar</i>	:	Computershare Hong Kong Investor Services Limited
<i>Hong Kong Listing Rules</i>	:	The Rules Governing the Listing of Securities on the HKSE, as amended or supplemented from time to time
<i>IFRS</i>	:	International Financial Reporting Standards
<i>Introduction</i>	:	The secondary listing by way of introduction of our Shares on the Main Board of the SGX-ST
<i>Introduction Shares</i>	:	Our Shares that have been issued, the Shares issuable by our Company under the Share Award Scheme and the Shares issuable by our Company upon conversion of the options granted under the 2013 Scheme
<i>Introductory Document</i>	:	This Introductory Document dated 30 December 2022 issued by our Company in respect of the Introduction
<i>ISA</i>	:	International Standards on Auditing
<i>ISO</i>	:	International Organisation for Standardisation
<i>Issue Manager</i>	:	UOB Kay Hian Private Limited, as the issue manager to the Introduction
<i>IT</i>	:	Information technology
<i>KPI</i>	:	Key performance indicator
<i>Latest Practicable Date</i>	:	16 December 2022, being the latest practicable date prior to the issuance of this Introductory Document
<i>Listing Date</i>	:	The date on which trading of our Shares on the SGX-ST commences
<i>Listing Manual</i>	:	The listing manual of SGX-ST, as amended, modified or supplemented from time to time

<i>Listing Rules</i>	:	The listing rules of SGX-ST, as amended, modified or supplemented from time to time
<i>M&A Rules</i>	:	The Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《关于外国投资者并购境内企业的规定》), promulgated by the MOFCOM and other governmental authorities on 8 August 2006, effective on 8 September 2006 and subsequently amended on 22 June 2009
<i>Market Day</i>	:	A day on which the SGX-ST and the HKSE is open for trading in securities
<i>MAS</i>	:	Monetary Authority of Singapore
<i>Memorandum of Association</i>	:	The amended and restated memorandum of association of our Company, as amended or modified from time to time
<i>MENA</i>	:	Middle East and North Africa
<i>MIIT</i>	:	The Ministry of Industry and Information Technology of the PRC (中华人民共和国工业和信息化部), and its predecessor known as the Ministry of Information Industry of the PRC (中华人民共和国信息产业部)
<i>MOFCOM</i>	:	The Ministry of Commerce of the PRC (中华人民共和国商务部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中华人民共和国对外贸易经济合作部)
<i>NDRC</i>	:	The National Development and Reform Commission of the PRC (中华人民共和国国家发展和改革委员会)
<i>New G Partnerships</i>	:	XHT No. 9 Partnership, XHT No. 10 Partnership, XHT No. 11 Partnership and XHT No. 12 Partnership
<i>New Share Acquisitions</i>	:	The proposed acquisitions of the shares of Comba China (now Comba Network) by the G Partnerships and Non-G Partnerships under the Share Incentive Scheme
<i>Non-G Limited Partner(s)</i>	:	Limited partner(s) of the Non-G Partnerships
<i>Non-G Partners</i>	:	Comba Consulting (as Non-G General Partner) and Non-G Limited Partners
<i>Non-G Partnerships</i>	:	XHT No. 2 Partnership, XHT No. 7 Partnership and XHT No. 8 Partnership
<i>PRC or China</i>	:	People's Republic of China, excluding, for the purposes of this Introductory Document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, except where the context otherwise requires

PRC Citizens	:	PRC companies or individuals
PRC Legal Adviser to the Company	:	Beijing Jincheng Tongda & Neal Law Firm
PRC Legal Adviser to the Issue Manager	:	Zhong Lun Law Firm
Principal Subsidiaries	:	Subsidiary companies or entities of our Company whose total assets, profit/losses before tax and revenue contribute to more than 5.0% of the total assets, profit/losses before tax and revenue (as the case may be) of our Group for FY2019, FY2020 or FY2021 and/or are otherwise significant to the business operations of our Group (and each, a “ Principal Subsidiary ”)
Proposed Spin-off and Listing	:	The proposed spin-off and separate listing of Comba Network on the SSE Sci-Tech Board
R&D	:	Research and development
RoHS	:	The Restriction of Hazardous Substances in electrical and electronic equipment
SAFE	:	State Administration of Foreign Exchange of the PRC (中华人民共和国国家外汇管理局)
SAFE Circular 13	:	The Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《关于进一步简化和改进直接投资外汇管理政策的通知》), as amended, supplemented or otherwise modified from time to time
SAFE Circular 16	:	The Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《关于改革和规范资本项目结汇管理政策的通知》), which was promulgated by the SAFE and became effective on 9 June 2016, as amended, supplemented or otherwise modified from time to time
SAFE Circular 19	:	The Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《关于改革外商投资企业外汇资本金结汇管理方式的通知》), as amended, supplemented or otherwise modified from time to time
SAFE Circular 28	:	The Circular of the State Administration of Foreign Exchange on Further Promoting Cross-border Trade and Investment Facilitation (《国家外汇管理局关于进一步促进跨境贸易投资便利化的通知》), as amended, supplemented or otherwise modified from time to time

SAFE Circular 59	:	The Circular of the State Administration of Foreign Exchange on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (《关于进一步改进和调整直接投资外汇管理政策的通知》), as amended, supplemented or otherwise modified from time to time
SAMR	:	PRC State Administration for Market Regulation (中华人民共和国国家市场监督管理总局), formerly known as the State Administration for Industry and Commerce of the PRC (中华人民共和国国家工商行政管理总局)
SCNPC	:	The Standing Committee of the National People's Congress of the PRC (全国人民代表大会常务委员会)
Securities Account	:	Securities account maintained by a CDP Depositor
Securities and Futures Ordinance or SFO	:	The Securities and Futures Ordinance (Cap. 571) of Hong Kong, as amended, supplemented or otherwise modified from time to time
Selected Participants	:	The selected participants in the Share Incentive Scheme
SFA	:	Securities and Futures Act 2001 of Singapore, as amended from time to time
SFC	:	The Securities and Futures Commission of Hong Kong
SFR	:	Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore, as amended from time to time
SFRS(I)	:	Singapore Financial Reporting Standards (International)
SFRS(I) 9	:	Singapore Financial Reporting Standard (International) 9 Financial Instruments
SGXNET	:	Singapore Exchange Network, the corporate announcement system maintained by the SGX-ST for the submission of information and announcements by listed companies
SGX-ST	:	Singapore Exchange Securities Trading Limited
Share Award Scheme	:	The share award scheme adopted on 25 March 2011 and renewed for ten years as from 25 March 2021 to 25 March 2031
Share Incentive Scheme	:	The share incentive scheme adopted by our Company on 29 May 2020 to award the shares of Comba Network, an indirect subsidiary of our Company

Shareholders	:	Registered holders of Shares, except where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose Securities Accounts are credited with Shares
Shares	:	Ordinary shares in the capital of our Company
Singapore Companies Act	:	Companies Act 1967 of Singapore, as amended from time to time
Singapore Share Transfer Agent	:	In.Corp Corporate Services Pte. Ltd.
Social Insurance Law	:	The Social Insurance Law of the PRC (《中华人民共和国社会保险法》), which was implemented on 1 July 2011 and amended on 29 December 2018, as amended, supplemented or otherwise modified from time to time
SSA	:	Singapore Standards on Auditing
SSE Sci-Tech Board	:	The Shanghai Stock Exchange Science and Technology Innovation Board, also known as the Shanghai Stock Exchange STAR Market
STA	:	State Taxation Administration of the PRC (中华人民共和国国家税务总局)
State Council	:	The State Council of the PRC (中华人民共和国中央人民政府)
Track Record Period	:	FY2019, FY2020, FY2021 and 6M2022
UK	:	United Kingdom
Unaudited Interim Condensed Consolidated Financial Statements	:	The unaudited interim condensed consolidated financial statements of our Company as of and for the six (6) months ended 30 June 2022
United States or US or USA	:	United States of America
US GAAP	:	US Generally Accepted Accounting Principles
US GAAS	:	US Generally Accepted Auditing Standards
VAT		Value added tax
Wholly Foreign-owned Enterprise Law	:	The Wholly Foreign-owned Enterprise Law of the PRC (《中华人民共和国外资企业法》), as amended, supplemented or otherwise modified from time to time

Currencies, Units and Others

%	:	Per centum, or percentage
<i>HK\$ or Hong Kong dollar or HK cents</i>	:	The lawful currency of Hong Kong
<i>Indian Rupee</i>	:	The lawful currency of India
<i>Lao Kip</i>	:	The lawful currency of the Lao People's Democratic Republic
<i>RMB or Renminbi</i>	:	Renminbi, the lawful currency of the PRC
<i>S\$ or Singapore dollars</i>	:	The lawful currency of the Republic of Singapore
<i>sq m</i>	:	Square metres
<i>Thai Baht</i>	:	The lawful currency of the Kingdom of Thailand
<i>US\$, U.S. dollars or USD</i>	:	United States dollars, the lawful currency of the United States of America

In this Introductory Document, references to our “**Company**” are to Comba Telecom Systems Holdings Limited and unless the context otherwise requires, the terms “**we**”, “**us**”, “**our**” and “**our Group**” refer to Comba Telecom Systems Holdings Limited and its subsidiaries taken as a whole. Unless the context otherwise requires, references to our “**Controlling Shareholder**” are to Mr. Fok Tung Ling, Mdm Chen Jing Na and Prime Choice Investments Limited unless otherwise stated. Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

The terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the meanings ascribed to them respectively in Section 81SF of the SFA.

The term “**subsidiary**” shall have the meaning ascribed to them in Section 5 of the Singapore Companies Act.

The term “**substantial shareholder**” shall have the meaning ascribed to it in under Chapter 1 of the Hong Kong Listing Rules, which means a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of a company.

Any references in this Introductory Document to any statute or enactment is a reference to that statute or enactment for the time being amended or re-enacted. Any word defined under the Singapore Companies Act, SFA, the SFR, the Listing Manual or any statutory modification thereof and used in this Introductory Document shall have the meaning assigned to it under the Singapore Companies Act, SFA, the SFR, the Listing Manual or such statutory modification, as the case may be.

Any reference to a time and date in this Introductory Document shall be a reference to Singapore time and date unless otherwise stated.

Unless we specify otherwise or the context otherwise requires, all references to the “**Shares**” refer to ordinary shares in the capital of our Company.

Certain numerical figures set out in this Introductory Document, including financial data presented in billions, millions or thousands, and percentages, have been subject to rounding adjustments and, as a result, the totals of the data in this Introductory Document may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” of this Introductory Document are approximate figures and have been calculated using the numerical data in our consolidated financial statements or the tabular presentation of other data (subject to rounding) contained in this Introductory Document, as applicable, and not using the numerical data in the narrative description thereof.

GLOSSARY OF TECHNICAL TERMS

To facilitate a better understanding of our business, the following glossary provides a description of certain technical terms and abbreviations related to our business, as used in this Introductory Document. The terms and their assigned meanings set out below may not correspond to standard industry or common meanings or usage of these terms, and should not be treated as being definitive of their meanings.

1G	:	First generation cellular network
2G	:	Second generation cellular network
3G	:	Third generation of wireless mobile telecommunications technology
4G	:	Fourth generation of broadband cellular network technology, succeeding 3G, and preceding 5G
4.5G	:	4G with much higher peak data rates and advanced version of LTE
5G	:	Fifth generation mobile network
5G-AAS	:	5G advanced antenna systems
5G NR	:	5G new radio, the global standard for a unified, more capable 5G wireless air interface
5G RAN	:	5G radio access network, an architecture in wireless communication and uses 5G radio frequencies to provide wireless connectivity to devices
5G RAN Solution	:	5G radio access network (RAN) solutions represent the radio base station of 5G network infrastructure: radio units, massive MIMO function and BBU solutions
5G SA	:	Standalone 5G, which uses a 5G RAN and a cloud-native 5G core
5G small cell	:	A type of cellular base stations that are relatively smaller in size and capable of transmitting radio signals
5G+Smart Mining	:	The deep integration of mine 5G network, mine intelligent equipment and intelligent platform, through the characteristics of 5G's high bandwidth, low latency and wide connection, in order to improve mine safety production and management efficiency
5W IDAS	:	5W Indoor Distributed Antenna System
AGV	:	Automated guided vehicle

AI	:	Artificial intelligence
AP	:	Access point
Baseband	:	A communications channel that is able to transfer or transmit frequencies that are near zero
BBU	:	Baseband unit, a device that interprets Baseband frequencies in telecom systems including computer networks, the internet, phone networks and radio broadcasting systems
BSA	:	Base station antenna
CDMA	:	Code-division multiple access, a channel access method used by various radio communication technologies
DAS	:	Distributed antennas system
E-Femto Solution	:	Innovative elevator coverage solution, elevator car coverage, wireless of base station signals, plug-and-play and easy installation, providing high-quality and low-cost coverage for elevators up to 300 meters high, while also expanding elevator IoT and operational value-added application
FDD	:	Frequency Division Duplex
Femto or Femtocell	:	A small, low-power cellular base station, typically designed for use in a home or small business
Flex5	:	An end-to-end 5G basic network platform solution, and a “one-stop” intelligent application solution
FQA	:	Factory Quality Assurance
GHz	:	Gigahertz
GSM	:	Global system for mobile communications
IB-WAS	:	Indoor Broadband Wireless Access System
IEEE	:	Institute of Electrical and Electronic Engineers
IoT	:	Internet of Things
LTE	:	Long-Term Evolution, a 4G wireless standard that provides increased network capacity and speed for cellphones and other cellular devices compared with 3G technology

<i>Magic Quadrant</i>	:	A series of research reports produced by Gartner IT Consulting Firm that outline market trends, as well as the maturity of the market and current market participants
<i>MCPA</i>	:	Multi-carrier power amplifier
<i>MDAS</i>	:	Multi-distributed Access System
<i>MHz</i>	:	Megahertz
<i>MIMO</i>	:	Multiple-input multiple-output, a wireless technology that uses multiple transmitters and receivers to transfer more data at the same time
<i>MRB</i>	:	Media resource broker
<i>Nanocell</i>	:	An integrated small cell supporting GSM/TD-SCDMA/TD-LTE standards and WLAN (WiFi) solutions. With the key feature of supporting both wireless network and WLAN (WiFi) services, it can be deployed in enterprises, homes and high-capacity hotspot locations. It also uses standard broadband connection as a low-cost network backhaul, hence reducing deployment and maintenance costs while providing advanced and reliable security features
<i>NB-IoT</i>	:	Narrow Band-Internet of Things
<i>Open RAN or Open Radio Access Network</i>	:	Open radio access network, a key part of a mobile network system that uses cellular radio connections to link individual devices to other parts of a network
<i>ORAN Alliance</i>	:	A specification group defining next generation RAN infrastructures, empowered by principles of intelligence and openness. It is a worldwide community of around 200 mobile operators, vendors, and research & academic institutions operating in the RAN industry
<i>O-RU</i>	:	Open RAN radio unit
<i>RAN</i>	:	Radio access network (RAN), a key component of a mobile telecommunication system that connects devices like smartphones to a network via a radio link
<i>Repeater</i>	:	Network device operating at physical layer of the OSI model that amplifies or regenerates an incoming signal before retransmitting it
<i>RET</i>	:	Remote electrical tilt
<i>RF</i>	:	Radio frequency

RRU	:	Remote radio unit, a typical wireless telecom station that consists of the baseband processing unit and the RF processing unit
ScanViS	:	A set of tools for scoring, annotating and visualising splice junctions using annotation details (gencode or others)
small cell	:	A miniature radio AP or wireless network base station with a low radio frequency power output, footprint and range
TD-LTE	:	Time division LTE
TD-SCDMA	:	Time Division-Synchronous Code Division Multiple Access, a 3G mobile telecommunications standard, being developed initially for China
WCDMA	:	Wideband Code Division Multiple Access, a 3G cellular technology that uses the CDMA air interface
Wifi or Wi-Fi	:	Wireless fidelity, the wireless technology used to connect computers, tablets, smartphones and other devices to the internet
WiMAX	:	Worldwide Interoperability for Microwave Access, a family of wireless broadband communication standards based on the IEEE 802.16 set of standards, which provide physical layer and media access control options
wireless transmission	:	Transmission of information between two (2) or more points without the use of an electrical conductor, optical fibre or other continuous guided medium for the transfer
WLAN	:	Wireless local area networks
X-DAS	:	The industry's first 5G X-DAS optical fibre feeder cable hybrid digital distribution system, with innovative system and custom dedicated chips, greatly reducing the construction cost and operating power consumption of 5G room divisions
vRAN	:	Virtualised RAN
VSAT	:	Very-small-aperture terminal

SUMMARY

This summary highlights information contained in other parts of this Introductory Document. As this is only a summary, it does not contain all of the information that you should consider before investing in our Shares, and it is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Introductory Document. Unless the context requires otherwise, references in this Introductory Document to “our Group”, “we”, “us” and “our” refer to Comba Telecom Systems Holdings Limited and our subsidiaries taken as a whole. You should read this entire Introductory Document, including, among others, our consolidated financial statements together with the related notes and the section entitled “Risk Factors” of this Introductory Document, before making a decision to invest in our Shares.

OUR COMPANY

Our Group is a global leading wireless solutions provider with its own R&D facilities, manufacturing base, and sales and service teams. We have a geographically diverse customer base of over 1300 customers globally. Our customer base includes major telecommunication operators such as Vodafone, Ooredoo, Airtel, Telenor, China Mobile, China Telecom, China Tower and China Unicom as well as other major global telecommunication equipment providers. We own over 5,500 patents globally, including approximately 900 patents under application. Leading through innovative technology, we offer a comprehensive suite of products and services including base station antennas and subsystems, network products, services, and wireless transmission to our global customers.

Our Company has also received numerous industry and financial recognitions of its performance and standing, which include the Gold Prize at the China Patent Award by National Intellectual Property Administration (in 2020), CIO Review Top 10 Wireless Technology Solution Company (in 2020), the Industry Outstanding Leadership Award in 5G Small Cell by Posts and Telecom Press (in 2019) and the “Top 100 Innovative Enterprises in Mainland China” ranking by Clarivate Analytics (in 2018).

Our core product portfolio includes base station antennas, subsystems and network products (DAS, small cells, Repeater, RRU, etc.), offering turnkey solutions for indoor and outdoor 2G/3G/4G/Wi-Fi/5G to our global customers. Our range of services includes consultation, network design, optimisation and commissioning, which enables us to supply our customers with end-to-end wireless solutions all over the world, including shopping malls, airports, sports stadiums, public service buildings, and telecom operator headquarters. We strive to develop innovative technology products for mobile operators and enterprises to enhance and extend their business value. In addition to our core business of supplying operators and industries with ubiquitous and high-capacity wireless networks, we are constantly reinventing ourselves and bringing new value-added solutions for the smart city and IoT era, among others. We offer a range of Open RAN products for the Open RAN ecosystem and bring ScanViS computer vision AI solutions to support the development of smart cities and AGV intelligent vehicles and solutions to support factory intelligent chemical applications.

We have established our R&D headquarters in Guangzhou Science City, which covers an area of approximately 3,500 sq m, and own approximately 5,500 patents (including approximately 900 patents under application) globally. Our global manufacturing base, located in the Guangzhou Economic and Technological Development District, covers an area of approximately 80,000 sq m. Our 5G antenna and filter manufacturing base, located in China-Singapore Guangzhou Knowledge City, covers an area of approximately 20,000 sq m. We have a total of 31 production lines producing products such as components, modules, Repeaters, antennas, and microwave products, and produce an average of approximately one (1) million pieces of product per year.

We have established more than 30 offices in China and more than 10 overseas offices worldwide, across APAC, MENA, Europe, CALA, India, the U.S. and more, providing products and services in more than 100 countries and regions. Through our direct offices and distribution network, customers are assured of swift before sales and after sales support at all times.

We have been included into the Hang Seng Composite SmallCap Index and Hang Seng Composite Industry Index – Information Technology since September 2020.

COMPETITIVE STRENGTHS

We believe that our Group benefits from a number of competitive strengths underpinned by our track record and the experience of our management team.

- We are a global leading solution and service provider of wireless and information communications system with our own R&D facilities and manufacturing base;
- We use modern manufacturing technology to produce innovative products and for our product testing, such as automotive manufacturing capabilities;
- We have a strong marketing team and service team with good synergy to serve customers, and an international footprint in China and across more than 10 other overseas offices worldwide;
- We have a replicable business model that is built on green initiatives;
- We have the capability to offer customised solutions to meet specific needs and requirements of our customers efficiently and effectively, such as the “green and innovative antenna and subsystem solution”;
- We own over 5,500 patents globally, including approximately 900 patents under application; and
- We have a strong management team with an average of over 20 years of experience.

Please see the section entitled “*Business – Competitive Strengths*” of this Introductory Document for further details.

BUSINESS STRATEGIES

Our business strategies are as follows:

- Enhancement of our R&D capabilities to ride on trends and business opportunities arising from the digitalisation of the telecommunications industry;
- Expansion of our product range, which includes the continual development and launch of eco-friendly and ESG products such as “green and innovative antenna and subsystem solution”;
- Expansion of the 5G vertical industry, including working with telecom operators to expand 5G+ industrial control applications that are in line with trends in arithmetic network construction and launching 5G wireless intelligent cloud network products;

- Continue to increase our market share in shared indoor wireless network coverage solutions and 5G+ vertical industries, especially through the expansion of our 5G+Smart Mining business and the strengthening and improvement of our technical support rendered to our customers;
- Continue to expand our base station antenna product portfolio and maintain our position as the technology and market leader in the base station antenna market. Partnering with international mobile operators and world-leading manufacturers of core equipment vendors. Supporting our partners to build efficient wireless network globally;
- Grow the Open RAN business and ecosystem by seeking strategic partners, exploring new sales channel and conducting joint product R&D to address both the macro and private network markets;
- Expansion of our business through, *inter alia*, investments, joint ventures and/or strategic collaborations and establishment of our brand and brand image; and
- Strengthening our operational control including digitalisation of our operations and internal management, conducting effective cost control and streamlining operations in order to improve our profitability.

FUTURE PLANS

In recent years, business in the APAC region has developed rapidly, and our Group also sees more business opportunities in this region. In order to support the development of our APAC business, our Company intends to increase our resources in Singapore and its surrounding regions, and to establish Singapore as an important hub in the APAC region.

We are also preparing for a spin-off and separate listing of Comba Network Group on the SSE Sci-Tech Board (the “**Proposed Spin-off and Listing**”). The HKSE confirmed on 3 September 2021 that we may proceed with the Proposed Spin-off and Listing under Practice Note 15 of the Hong Kong Listing Rules. Please see the section entitled “*Business – Business Strategies and Future Plans – Future Plans*” of this Introductory Document for more information.

As at the Latest Practicable Date, our Company indirectly holds approximately 79.48% equity interest in Comba Network. The Comba Network Group is principally engaged in the manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services. It currently focuses on research and development, manufacture and sale of network system products, including macro cells, small cells, related extended & in-depth coverage solutions and Open RAN products as well as providing network solutions for the 5G vertical industry.

Our Board is of the view that the Proposed Spin-off and Listing will provide the Comba Network Group with a variety of benefits, including unlocking its hidden value and increasing its own brand image. As it is expected that the Comba Network Group will remain as our subsidiary after the Proposed Spin-off and Listing, our Group will enjoy the benefits arising from the growth of the Comba Network Group as a result of the Proposed Spin-off and Listing. In light of the above, our Board considers that the Proposed Spin-off and Listing is in the interests of our Group and our Shareholders as a whole.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our Audited Consolidated Financial Statements, Unaudited Interim Condensed Consolidated Financial Statements and related notes included elsewhere in this Introductory Document. The operating results in any period are not necessarily indicative of the results that may be expected for any future periods.

Our consolidated financial statements are reported in HK\$ and prepared and presented in accordance with HKFRS. We have provided below conversions of certain HK\$ amounts into Singapore dollar at specified rates solely for the convenience of the reader.

Consolidated Statements of Profit or Loss

The following table presents our selected consolidated statements of profit or loss as of the dates indicated.

HK\$'000	Audited			Unaudited	
	FY2019	FY2020	FY2021	6M2021	6M2022
Revenue	5,779,916	5,057,240	5,869,666	2,418,128	3,042,518
Cost of sales	(4,003,732)	(3,612,059)	(4,446,835)	(1,737,142)	(2,195,392)
Gross profit	1,776,184	1,445,181	1,422,831	680,986	847,126
Other income and gains	176,065	183,442	193,320	67,984	81,611
Research and development expenses	(346,785)	(471,055)	(608,940)	(256,763)	(259,477)
Selling and distribution expenses	(559,599)	(542,321)	(597,546)	(235,734)	(265,088)
Administrative expenses	(573,966)	(571,519)	(601,073)	(216,705)	(214,880)
Other expenses	(237,211)	(243,540)	(428,256)	(112,307)	(87,574)
Finance costs	(104,013)	(69,352)	(43,761)	(21,425)	(21,653)
Share of profit of a joint venture	—	1,052	6,968	4,907	1,991
Profit/(Loss) before tax	130,675	(268,112)	(656,457)	(89,057)	82,056
Income tax expense	(61,853)	(23,011)	(16,100)	(26,943)	(23,331)
Profit/(Loss) for the year	68,822	(291,123)	(672,557)	(116,000)	58,725
Attributable to:					
Owners of the parent	151,749	(194,104)	(592,567)	(89,360)	90,384
Non-controlling interests	(82,927)	(97,019)	(79,990)	(26,640)	(31,659)
	68,822	(291,123)	(672,557)	(116,000)	58,725
Earnings/(Loss) per Share attributable to ordinary equity holders of the parent					
Basic (HK cents)	6.18	(7.36)	(21.43)	(3.26)	3.25
Diluted (HK cents)	6.12	(7.36)	(21.43)	(3.26)	3.25

Consolidated Statements of Financial Position

The following table presents our selected consolidated statements of financial position data as of the dates indicated.

	Audited	Unaudited
	As at	As at
HK\$'000	31 December	30 June
	2021	2022
NON-CURRENT ASSETS		
Property, plant and equipment	1,347,683	1,222,201
Right-of-use assets	216,989	201,838
Goodwill	242,773	242,773
Deferred tax assets	225,614	212,989
Intangible assets	806,267	750,116
Equity investments designated at fair value through other comprehensive income	62,813	57,527
Equity investments designated at fair value through profit or loss	90,534	93,443
Restricted bank deposits	26,195	30,557
Time deposits	257,405	363,007
Investment in a joint venture	18,354	17,656
Total non-current assets	3,294,627	3,192,107
CURRENT ASSETS		
Inventories	1,356,335	1,388,045
Trade receivables	4,129,136	4,126,289
Notes receivable	97,109	169,780
Prepayments, other receivables and other assets	626,994	498,643
Financial assets at fair value through profit or loss	3,102	2,291
Restricted bank deposits	107,900	115,428
Time deposits	245,148	117,099
Cash and cash equivalents	1,652,228	1,698,979
Total current assets	8,217,952	8,116,554
Total assets	11,512,579	11,308,661

	Audited	Unaudited
HK\$'000	As at 31 December 2021	As at 30 June 2022
CURRENT LIABILITIES		
Trade and bills payables	4,544,849	4,372,787
Other payables and accruals	623,223	596,420
Interest-bearing bank borrowings	644,739	851,802
Tax payable	73,527	82,228
Provision for product warranties	75,290	73,407
Total current liabilities	5,961,628	5,976,644
NET CURRENT ASSETS	2,256,324	2,139,910
TOTAL ASSETS LESS CURRENT LIABILITIES	5,550,951	5,332,017
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	800,000	760,000
Deferred tax liabilities	164,063	158,687
Lease liabilities	60,300	44,727
Redeemable preferred shares in a subsidiary	342,771	325,657
Total non-current liabilities	1,367,134	1,289,071
Total liabilities	7,328,762	7,265,715
Net assets	4,183,817	4,042,946
EQUITY		
Equity attributable to owners of the parent		
Issued capital	277,892	277,955
Treasury shares	(22,818)	(22,818)
Reserves	3,519,642	3,529,620
	3,774,716	3,784,757
Non-controlling interests	409,101	258,189
Total equity	4,183,817	4,042,946

DIVIDEND POLICY

Our dividend policy is that we may consider declaring and paying dividends to our Shareholders, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. When deciding whether to propose a dividend and determining the dividend amount, our Board shall take into account, among other things, the financial performance and condition, liquidity position, working capital requirements and future expansion plans of our Group, and any other factors which our Board deems relevant. The payment of dividend is also subject to any requirements of the Cayman Islands Companies Act and our Memorandum and Articles of Association.

See the section entitled “*Dividend Policy*” of this Introductory Document for further information.

CORPORATE INFORMATION

Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the address of our head office and principal place of business in Hong Kong is Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong. Our telephone number is +852 2636 6861 and our facsimile numbers are +852 2637 0966/+852 2116 6055, and our corporate e-mail address is comba@comba-telecom.com.

Investor enquiries should be directed to us at the address and telephone number of our head office and principal place of business in Hong Kong set forth above. Our website address is <https://www.comba-telecom.com>. The information contained in our website and any website directly or indirectly linked to such website or the websites of any of our related corporations or other entities in which we may have an interest do not constitute part of and are not incorporated by reference in this Introductory Document and should not be relied on as such.

SUMMARY OF THE INTRODUCTION

Our Company

Comba Telecom Systems Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 17 May 2002.

Our Shares have been primary listed on the HKSE under the stock code “2342” and stock short name “COMBA” since 15 July 2003.

Listing on the SGX-ST

An application has been made to the SGX-ST for permission to list all our Introduction Shares on the Main Board of the SGX-ST. Such permission will be granted when we have been admitted to the Official List of the SGX-ST.

Trading on the SGX-ST

Our Shares will, upon their listing and quotation on the SGX-ST, be traded on the SGX-ST under the book-entry (scripless) settlement system of CDP. Dealing in and quotation of our Shares will be in Singapore dollars. Our Shares will be traded in board lot size of 100 Shares.

Voting Rights

Shareholders may vote on all matters submitted to a vote of Shareholders, except as may otherwise be required by law. See the section entitled “*Description of Share Capital*” of this Introductory Document. However, the ability of CDP Depositors to vote at Shareholders’ meetings will be limited. See the sections entitled “*Description of Share Capital – Summary of Selected Provisions of our Articles of Association – Voting Rights*” and “*Clearance and Settlement – Voting Instructions*” of this Introductory Document.

Dividends

Our dividend policy is that we may consider declaring and paying dividends to our Shareholders, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. When deciding whether to propose a dividend and determining the dividend amount, our Board shall take into account, among other things, the financial performance and condition, liquidity position, working capital requirements and future expansion plans of our Group, and any other factors which our Board deems relevant. The payment of dividend is also subject to any requirements of the Cayman Islands Companies Act and our Memorandum and Articles of Association. See the section entitled “*Dividend Policy*” of this Introductory Document for a description of our dividend policy.

Shareholders whose Shares are held through CDP will receive their dividends through CDP in Singapore dollars. We will make the necessary arrangements to convert the dividends in Hong Kong dollars into the Singapore dollars equivalent at the prevailing exchange rate obtained by us on the relevant date for onward distribution to CDP and CDP's onward distribution to entitled Shareholders.

Share Capital

As at the Latest Practicable Date, our registered and authorised share capital is HK\$500,000,000 divided into 5,000,000,000 Shares of par value of HK\$0.10 each and our issued and paid-up capital is HK\$278,018,917 divided into 2,780,189,168 Shares, each with a par value of HK\$0.10. All our 2,780,189,168 issued Shares are currently listed on the HKSE. We have only one (1) class of shares, being the Shares.

Market Capitalisation

Our Company has a market capitalisation of HK\$3,947,868,618.56 (approximately S\$688.98 million) as of the Latest Practicable Date.

Risk Factors

Prospective investors should carefully consider certain risks connected with an investment in our Shares, as discussed in the section entitled "*Risk Factors*" of this Introductory Document.

OUR LISTING ON THE SGX-ST

Upon admission to the Official List of the SGX-ST, we will be listed on both the SGX-ST and the HKSE, with the HKSE being the primary exchange on which our Shares are traded and the SGX-ST being the secondary exchange. As the HKSE is the primary exchange on which our Shares are traded, we are subject to and are required to comply with the relevant regulations and notifications issued by the HKSE.

An eligibility-to-list letter has been obtained from the SGX-ST for the listing and quotation of all our issued Shares on the SGX-ST, subject to the following conditions:

- (a) compliance with the SGX-ST's listing requirements;
- (b) our Company maintaining our primary listing on the HKSE;
- (c) pre-quotation disclosure of information required by the SGX-ST (which was conveyed to our Company prior to issuance of this Introductory Document);
- (d) our Company confirming that our Memorandum of Association and Articles of Association (incorporating all amendments to date) have been filed with the HKSE;
- (e) our Company undertaking to comply with the following requirements as set out in Rule 217 of the Listing Manual to:
 - (i) release all information and documents in English to the SGX-ST at the same time as they are released on the HKSE;
 - (ii) inform the SGX-ST of any issue of additional securities in a class already listed on the SGX-ST and the decision of the HKSE; and
 - (iii) comply with such other listing rules as may be applied by the SGX-ST from time to time (whether before or after the Introduction);
- (f) our Company undertaking that in the event for a need for trading halt or suspension in our Shares, our Company would request for a trading halt or suspension on all exchanges at the same time;
- (g) written confirmation from the Issue Manager that adequate disclosure has been made on the major differences between the laws of Cayman Islands and Singapore on investor protection;
- (h) written confirmations from the Issue Manager and our Company that arrangements satisfactory to the SGX-ST are in place to ensure:
 - (i) orderly trading in the market when trading begins in our Company's Shares in Singapore; and
 - (ii) timely settlement of trades, including but not limited to, procedures for the deposit, withdrawal and registration of our Company's Shares in Singapore;
- (i) written confirmation from the Issue Manager that Rules 246(4) and 246(12) of the Listing Manual have been complied with;
- (j) submission of the documents stipulated in Rules 248, 249 and 250 of the Listing Manual; and

- (k) the release of an SGXNET announcement disclosing the latest price of our Company's Shares (including the equivalent in SGD) on the HKSE prior to the Introduction.

We have obtained from the SGX-ST a waiver from compliance with the following rules under the Listing Manual:

- (a) Rule 210(5)(a) of the Listing Manual which requires, among others, that a director who has no prior experience as a director of an issuer listed on the SGX-ST must undergo training in the roles and responsibilities of a director of a listed issuer as prescribed by the SGX-ST. The waiver was sought on the basis that (i) our Company has a primary listing on the HKSE and each of our Directors has the necessary experience and expertise to act as a director of a company listed on the HKSE and (ii) pursuant to Rule 217 of the Listing Manual, a foreign issuer with a secondary listing on the SGX-ST is not required to comply with the Listing Manual (except for such rules as may be applied by the SGX ST from time to time), and accordingly our Company would not have an obligation to comply with Rule 720 (read with Rule 210(5)) of the Listing Manual on an ongoing basis.
- (b) Rules 211A(2) and 211A(3) of the Listing Manual which requires (i) in respect of a secondary listing, the financial statements submitted with the listing application, and future periodic financial reports, need only be reconciled to SFRS(I), or IFRS, or US GAAP; and (ii) the annual financial statements must be audited by certified public accountants in accordance with SSA, ISA, or US GAAS, as the case may be, subject to disclosure in this Introductory Document of the bases for the waiver sought, the Independent Auditor's confirmation that there is no material adjustments are required to restate our Company's consolidated financial statements for FY2019, FY2020, FY2021 and 6M2022 in accordance with IFRS and no material difference between HKSA and ISA and that the financial statements of our Company following the Introduction would not be reconciled or restated to SFRS(I), IFRS or US GAAP or audited in accordance with SSA, ISA or US GAAS, as our Company will continue to comply with such requirements in relation to accounting and auditing standards as may be applicable to our Company under the applicable rules and requirements in Hong Kong.

Our Company had sought a waiver from Rules 211A(2) and (3) of the Listing Manual for the following reasons:

- (i) our Company prepares our financial statements in accordance with HKFRS which are audited by our auditors in accordance with HKSA; and
- (ii) the Independent Auditor is of the opinion that:
 - (1) no material adjustments are required to restate the Audited Consolidated Financial Statements and Unaudited Interim Condensed Consolidated Financial Statements in accordance with IFRS; and
 - (2) there are no material differences between HKSA and ISA.

See the section entitled "*Presentation of Financial and Statistical Information*" of this Introductory Document for further details.

- (c) Rule 221 of the Listing Manual which requires a foreign issuer seeking admission to the Official List of the SGX-ST to have at least two (2) independent directors resident in Singapore (the "**Singapore Resident ID**"). The waiver was sought on the basis that our Company's board composition is required to comply with the requirements under the applicable Hong Kong Listing Rules and as a foreign issuer on the HKSE, our Company is allowed to follow our home country practice in lieu of certain of these requirements. Our board of directors currently comprises 11 directors, four (4) of whom are considered

independent under the applicable Hong Kong Listing Rules. In addition, given our Company's profile and industry, our Company also believes that it is necessary to have sufficient time to identify a suitable candidate who is not only resident in Singapore but able to augment the expertise of our board of directors. Our Company has also provided (i) a written confirmation that a compliance advisory firm which is experienced in advising on compliance with the Listing Manual has been appointed until the appointment of the Singapore Resident ID; and (ii) a written undertaking to appoint one (1) Singapore Resident ID (who complies with the requirements under Rule 210(5)(d) of the Listing Manual) within one (1) year of the Introduction and ensure that the appointment of the compliance advisory firm or Singapore Resident ID is maintained at all times on a continuing basis for so long as our Company is secondary listed on SGX-ST. We have appointed In.Corp Corporate Services Pte. Ltd. as our compliance advisory firm.

- (d) Rule 210(5)(d)(iii) of the Listing Manual which requires the continued appointment as independent director of Mr. Lau Siu Ki, Kelvin and Mr. Lin Jin Tong, who each has been a Director for an aggregate period of more than nine (9) years before the Introduction, to be sought and approved in separate resolutions by Shareholders excluding our Directors, our Group President, Mr. Xu Huijun, and their respective associates. The waiver was sought on the basis that there is a similar concept of having to obtain shareholders' approval of independent non-executive directors who have served for more than nine (9) years on the board under the Hong Kong Listing Rules. Although the Hong Kong Listing Rules do not specifically prohibit voting by a shareholder unless there is a "material interest" that requires a shareholder to abstain from voting, and there is no requirement under the Hong Kong Listing Rules requiring the company to table separate resolutions for all shareholders as well as all shareholders excluding the directors and the chief executive officer of the issuer, and associates of such directors and chief executive officer, to vote on the continued appointment of an independent director who had served for more than nine (9) years (before or after listing), our Shareholders who were present at the general meeting held on 30 May 2022 and who were eligible to vote, had approved the re-election of Mr. Lau Siu Ki, Kevin and Dr. Lin Jin Tong as independent non-executive directors.

We have appointed In.Corp Corporate Services Pte. Ltd. as the compliance advisory firm and will seek the prior approval of the SGX-ST before a change of such appointment.

OBLIGATIONS UNDER THE LISTING MANUAL

As a foreign issuer with a secondary listing on the SGX-ST, pursuant to Rule 217 of the Listing Manual, upon the listing of our Shares on the SGX-ST, we will not be required to comply with the Listing Rules, provided that we undertake to:

- (a) release all information and documents in English to the SGX-ST at the same time as they are released to the home exchange;
- (b) inform the SGX-ST of any issue of additional securities in a class already listed on the SGX-ST and the decision of the home exchange;
- (c) comply with such other Listing Rules as may be applied by the SGX-ST from time to time (whether before or after listing); and
- (d) notify SGX Operations by way of email and attach the announcement published on the HKSE website (which includes details of any issuance of additional securities and number and class of such securities pursuant to the Stock Incentive Plans) in such email notification.

INTRODUCTORY DOCUMENT DISCLOSURE

Pursuant to Rule 607 of the Listing Manual, this Introductory Document is required to comply with the disclosure requirements in the SFA. We have obtained the following waivers from the SGX-ST from compliance with certain of the introductory document disclosure requirements under the Fifth Schedule to the SFR (the **"Fifth Schedule"**): (i) Paragraph 6 of Part 4 (the **"Capitalisation and Indebtedness Provisions"**); (ii) Paragraph 1(d) of Part 5 and Paragraphs 8 and 9 of Part 6 (the **"Latest Practicable Date Information"**); (iii) Paragraph 5(a) of Part 6 (the **"Material Sources of Liquidity"**); (iv) Paragraph 1(b) of Part 7 (the **"Principal Directorships Provision"**); (v) Paragraphs 9(a), 9(b) and 14 of Part 7 (the **"Remuneration Provisions"**); (vi) Paragraph 3 of Part 7 (the **"Shareholding Provision"**); (vii) Paragraphs 1, 2, 3 and 4 of Part 8 (the **"IPT Provisions"**); and (viii) Paragraph 5 of Part 5 and Paragraph 8 of Part 11 (the **"Subsidiaries and Share Capital Disclosures"**), for reasons that include the following:

- (a) HKSE is our home exchange and we are subject to a set of disclosure requirements under the applicable Hong Kong laws and regulations including the Hong Kong Listing Rules.
- (b) Disclosing information in this Introductory Document relating to the requirements under the Fifth Schedule may result in a non-parity of information between investors in Hong Kong and Singapore, which may present an unfair ground and unlevel playing field between the two sets of investors. Such additional disclosures may also result in queries from the HKSE or even litigation.
- (c) In respect of the Capitalisation and Indebtedness Provision, we are unable to provide information on the capitalisation and indebtedness of our Group as of a date no earlier than 60 days prior to the date of issue of this Introductory Document as this information has not yet been finalised as of the date of this Introductory Document. Further, except in the case of significant transactions classified as "major transaction", "very substantial acquisition" or "very substantial disposal" under Chapter 14 of the Hong Kong Listing Rules, our Group is only required to make disclosures in relation to our indebtedness, liquidity, financial resources and capital structure in its annual and interim reports.
- (d) In respect of the Latest Practicable Date Information, it would be challenging for us to provide the disclosures required under paragraph 1(d) of Part 5 of the Fifth Schedule and paragraphs 8 and 9 of Part 6 of the Fifth Schedule as of the Latest Practicable Date given the size of our Group's operations which cut across many countries around the world through its over 100 subsidiaries. In terms of the cost of compliance, to disclose the amount of trade receivables collected would impose obligations on our Company that are more onerous than the requirements imposed under the Hong Kong Listing Rules. As our Company has more than 100 subsidiaries, 20 branches, three (3) representative offices and one (1) joint venture company, our Company would need to expend extensive time and resources to gather the information required to include such disclosures in this Introductory Document. On the other hand, providing historical and committed capital expenditure information as of 30 June 2022 would be in line with our Company's most recent financial reporting of the results of operations for 6M2022 and the financial condition as at 30 June 2022. Investors would also be able to understand such information in an appropriate context when our Company makes these public filings together with the other financial results.
- (e) In respect of Material Sources of Liquidity, we are unable to provide a description of our material sources of liquidity, whether internal or external, and a brief discussion of any material unused sources of liquidity, as of the Latest Practicable Date. As an issuer listed on the HKSE, our Company is only required to disclose information relating to the material sources of liquidity in its financial announcements which are issued on a half-yearly basis. There is no requirement for our Company to disclose material unused sources of liquidity in its annual or interim reports. Currently, our Company discloses its current assets and liabilities (including its material sources of liquidity) in the half-yearly and full year results announcements and its interim and annual reports.

- (f) In respect of the Principal Directorships Provision, our Directors and executive officers are not required to disclose directorships in private companies provided that such private companies do not compete directly or indirectly with our Group. Hence, our Directors and executive officers have disclosed primarily their past and present directorships in publicly listed companies in this Introductory Document as well. They have also disclosed any directorships they hold in our Principal Subsidiaries.
- (g) In respect of the Remuneration Provisions, our Company is only required to disclose the remuneration of the directors and the five (5) highest paid employees (which includes the directors in the pool of employees being assessed) and the remuneration of the senior management members (who are not directors) by bands (without identifying such senior management members individually). There are no corresponding provisions in the Hong Kong Listing Rules to disclose the stock options held by our executive officers as part of their remuneration. In particular, under the Hong Kong Listing Rules, the disclosure of share options held by employees who are not directors or chief executive of our Company will be aggregated instead of on a named individual basis. If our Company is required to comply with the Remuneration Provisions, it would be required to make disclosures which are more onerous than the requirements of its home exchange.
- (h) In respect of the Shareholding Provision, the disclosure requirements relating to share ownership of companies under the applicable Hong Kong rules differ from the requirements under the Shareholding Provision. If we are required to comply with the Shareholding Provision, it could be potentially confusing for our shareholders and potential investors. Differences in the disclosures will also result in non-parity of information between the various groups of investors in Hong Kong and Singapore, thus potentially presenting an uneven playing field between the different groups of investors. As such, it would be unduly onerous, and extensive time and resources would be unnecessarily expended by us, to include such disclosures in this Introductory Document which will not be relevant to our Company post-listing.
- (i) In respect of the IPT Provisions, the existing interested person transactions requirements under the Fifth Schedule are relatively complex. It would be unduly onerous and extensive time and resources would be unnecessarily expended by our management to familiarise themselves with the SFR requirements for the purposes of ensuring such disclosure in this Introductory Document especially if, after the Listing, we will not be subject to the ongoing listing obligations relating to interested person transactions under Chapter 9 of the Listing Manual.
- (j) In respect of the Subsidiaries and Share Capital Disclosures, under the applicable Hong Kong Listing Rules, details of subsidiaries which, in the opinion of our Directors, materially contribute to the net income of our Group or hold a material portion of the assets or liabilities of our Group shall be included in the annual reports of our Company. Our Directors have determined which of these subsidiaries fall within the aforesaid materiality category on the basis of those entities (a) whose total assets, profit/losses before tax and revenue contribute more than 5% of the total assets, profit/losses before tax and revenue of our Group for FY2019, FY2020 and/or FY2021; and/or (b) are otherwise significant to the business operations of our Group. Our Group has three (3) subsidiaries which would have been disclosed pursuant to the Subsidiaries and Share Capital Disclosures, but was not disclosed under the applicable Hong Kong Listing Rules in FY2019, FY2020 and FY2021. Given that our Group has more than 100 subsidiaries, 20 branches, three (3) representative offices and one (1) joint venture company, it will be unduly burdensome on our Company to comply with the Subsidiaries and Share Capital Disclosures. Differences in the disclosures will also result in non-parity of information between the various groups of investors in Hong Kong and Singapore, thus potentially presenting an uneven playing field between the different groups of investors. As such, it would be unduly onerous, and extensive time and resources would be unnecessarily expended by us, to include such disclosures in this Introductory Document which will not be relevant to our Company post-Introduction.

RISK FACTORS

An investment in our Shares involves risk. Prospective investors should rely on their own evaluation and carefully consider the following risk factors, in addition to other information contained elsewhere in this Introductory Document, before investing in our Shares. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the following risks and other factors elsewhere in this Introductory Document. If any of the risks described herein actually occur, our performance, prospects, financial condition, results of operations and ability to make dividend payments could be negatively affected, the trading price of our Shares, if any, could decline and investors may lose all or part of their investment.

Unless quantified in the relevant risk factors set out herein, we are not in a position to quantify the financial or other implications of any of the risks described in this section. Potential investors should pay particular attention to the fact that we are governed in jurisdictions such as the Cayman Islands, Hong Kong and the PRC by a legal, regulatory and business environment which in some material respects may be different from that which prevails in Singapore and other countries. In addition, the following risk factors may not be exhaustive, and additional risks and uncertainties not presently known to us or which are currently deemed to be immaterial may become material in the future, which could have a material adverse effect on our performance, prospects, financial condition, results of operations and ability to make dividend payments or the trading price of our Shares, if any. Prospective investors should be aware that the price of our Shares may fluctuate. Investors should also note that they may not recoup all or any portion of their original investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business operations may be materially and adversely affected if we fail to comply with laws, regulations and conditions stipulated in any licences, permits, registrations or approvals, and/or are unable to obtain, maintain and/or renew the required licences, permits, registrations and approvals.

In carrying out our business operations, we are required to comply with relevant laws and regulations and obtain certain licences, permits, registrations and approvals from various governmental authorities in the countries that we operate in. Please refer to the sections entitled “Regulations” and “Business – Licences, Permits and Approvals” of this Introductory Document for a summary of the key laws and regulations affecting our Group and the key licences, permits, registrations and approvals obtained as at the Latest Practicable Date.

Some of these licences, permits, registrations and approvals may be subject to periodic renewal and reassessment by the relevant authorities, and the standards of compliance required in relation thereto may from time to time be subject to changes. New laws, regulations or policies may also be adopted. Accordingly, we have to constantly monitor and ensure compliance with the relevant conditions, laws and regulations. While we have not encountered any instances of failure to obtain or renew any licences, permits, registrations or approvals required for the operation of our business during the Track Record Period, obtaining, retaining or renewing the terms of the necessary licences, permits and registrations or approvals can be a time-consuming process. There is no assurance that we will be able to obtain renewed licences, permits, registrations and approvals upon their expiration in a timely manner, or at all. Any failure to obtain or renew such licences, permits, registrations and approvals as planned, or any requirement for a more stringent compliance standard may have a material and adverse effect on our business, results of operations and financial position.

There is also no assurance that the regulatory environments in which we operate will not change significantly or become more stringent in the future. Compliance with any changes in existing or new laws and regulations may increase our compliance costs, which may adversely affect our business, operations, financial performance and prospects. In addition, there is no assurance that we would be able to comply with such amended or new laws and regulations, which may have an adverse effect on our business, operations, financial performance or prospects. In the event that we fail to comply with the relevant laws and regulations, we may be penalised for such breaches of law or regulation, and our business, operations, financial performance and prospects may be adversely affected as a result.

During the Track Record Period, there were no past incidents concerning our Group's inability to obtain or renew permits and/or regulatory licences that had a material adverse impact on our Group's financials and/or operations, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

Like most business-to-business (B2B) businesses in the telecommunications equipment industry, we are exposed to concentration risk of reliance on our major customers, and may be adversely affected by any disruption or termination of our business relationships with our major customers or fluctuations in their demand for our products.

During the Track Record Period, we generated significant sales from our major customers. For FY2019, FY2020, FY2021 and 6M2022, the total sales generated from our five (5) largest customers accounted for 63.6%, 51.9%, 54.6% and 56.2% of our Group's revenue respectively. For the same period, the sales to the largest customer accounted for approximately 30.0%, 20.9%, 25.9% and 27.8% of our Group's revenue respectively. We expect revenue generated from our major customers to continue to represent a significant portion of our revenue in the foreseeable future. As such, we may be subject to concentration risk from such customers. Please refer to the section entitled "*Business – Major Customers*" of this Introductory Document for further details of our major customers.

There is no assurance that we will be able to retain these major customers or that they will maintain their business relationships with us. If there is a reduction or cessation of orders from these major customers and we are unable to obtain suitable orders of a comparable size and terms in replacement, our business, results of operations, financial position and cash flow may be materially and adversely affected.

We believe we are the sole supplier for some of the products of certain of our customers based on market share of sale activities and from our customers' feedback. However, our business is generally not based on long-term exclusive contracts with our major customers. We have entered into master supplier agreements with certain customers which set out a broad framework of the business relationship and arrangements with these customers. Such master supplier agreements are multiple year-long and renew automatically. Pursuant to such master supplier agreements, our Group supplies our customers with our products and services based on our customers' projection of market needs/demands and issuance of purchase orders associated with credit terms agreed between ourselves and the relevant customers based on industry-standardised payment and delivery terms. These agreements usually have ordinary termination clauses (i.e. termination notice at the option of any party to the agreement or material breach) and are governed by laws of either our Company's or the relevant customers' principal place of business (for example, laws of Hong Kong, Singapore and developed nations of the EU). The contribution of these customers to the Group for FY2019, FY2020, FY2021 and 6M2022 are 12%, 15%, 11% and 15% respectively. However, these agreements do not always oblige these customers to place certain minimum orders with us.

Our ability to maintain our price competitiveness and adhere to high quality standards is therefore important to our ability to secure new orders or renew existing contracts. There is no guarantee that our customers will continue to place orders or that the volume of our orders will be maintained. As we do not enter into long-term contracts with our customers, the selling prices for some of our existing products may be subject to downward price revisions due to, *inter alia*, price competition from other approved suppliers, rapid technological changes and short product life cycles. Rapid technological changes and short product life cycles leading to new products being introduced into the market at a faster pace may also cause selling prices of existing products to drop. Should the selling prices of our existing products decrease and we are unable to secure sufficient additional orders to make up for the loss in revenue, our business, results of operations, financial position and cash flow may be materially and adversely affected.

There is also no assurance that we would be able to continue to maintain good business relationships with our customers in the future. Our customers are not obliged to continue providing us with new businesses in the future at a level similar to that in the past or at all. Should any of these customers reduce substantially the size of its transactions with us, terminate its business relationship with us entirely, wind up or fail to make payments on time, there can be no assurance that we would be able to secure new businesses from other customers to compensate for such reduction in transactions or loss of business entirely. In addition, there can be no assurance that new businesses secured from other customers in replacement, if any, would be on commercially comparable terms. Accordingly, our business, results of operations, financial position and cash flow may be materially and adversely affected.

There were no such past incidents which had a material adverse impact on our Group's business operations and/or financials, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

We plan and budget our production based on our customers' projections of the demand for their products which may not materialise into orders.

We plan and budget our production based on our customers' projections of the demand for their products. There can be no certainty that such projections will materialise into purchase orders. Any shortfall in these projections will adversely affect our production efficiencies and we risk committing resources for projections that may not materialise. Such shortfalls in projections will cause an inefficient allocation of staff and raw materials, which could have been better utilised for other profitable products. The purchase orders we receive may also exceed our projections, which could cause an increase in our actual costs beyond our budget. The production plan of our Group is based on the sales orders of our customers. Such sales orders are subject to cancellation by the relevant customers until the actual deliveries. Due to the fast market demand change, some sales orders were cancelled by our customers before the actual deliveries. In order to maintain good customer relationship, our Company normally would not pursue any recourse it may have against such customers for the cancellation of sales orders. Revenue from the sales of goods and related installation by our Group is recognised at the point in time when the control of the asset is transferred to the customer on delivery of the goods. Sales orders cancelled prior to actual deliveries would not be recognised as revenue. No such cancelled sales orders were recognised as revenue during the Track Record Period. The material inventory obsolescence during the Track Record Period had arisen as a result. Additionally, new products are vulnerable to specification changes and product launch delays which are outside of our control. The occurrence of any of the foregoing may have a material and adverse effect on our business, financial position, results of operations and prospects.

Although our Group's loss on inventory obsolescence as a percentage of our Group's total revenue was less than 5% during the Track Record Period, as disclosed in the section of this Introductory Document entitled "*Business – Inventory Management*", there can be no assurance that we will not, in the future, encounter loss on inventory obsolescence that would have a material adverse impact on our Group's business operations and/or financials.

Save as disclosed under this risk factor entitled "*We plan and budget our production based on our customers' projections of the demand for their products which may not materialise into orders.*" of this Introductory Document, there were no such past incidents which had a material adverse impact on our Group's business operations and/or financials, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

We are exposed to the credit risks of our customers.

Our Group's trading terms with its customers are mainly on credit. The credit period is generally three (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 six (6) to 12 months after sale. The credit terms for major customers are reviewed regularly by senior management.

While our Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk, there is no guarantee that our customers will settle payment in full as it falls due. In the event our customers are unable to settle trade amounts due to us on a timely basis, this will have an adverse impact on our results of operations, cash flows and financial position.

At the end of each reporting period, our loss allowance on trade receivables amounted to HK\$469.6 million, HK\$548.9 million, HK\$723.5 million and HK\$693.6 million in FY2019, FY2020, FY2021 and 6M2022 respectively. Please refer to the section entitled "*Business – Credit Management*" of this Introductory Document for further details on our credit management procedures.

In addition, should the creditworthiness of our customers deteriorate or should a significant number of our customers fail to settle their trade receivables in full for any reason, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected. There is no assurance that we will be able to fully recover our trade receivables from our customers or that they will settle our trade receivables in a timely manner. In the event the settlements from our customers are not made on a timely manner, the financial position, profitability and cash flow of our Group may be adversely affected.

We operate in a highly competitive industry and may not be able to continue competing successfully.

Our business is highly competitive and we face competition from players in the market. Some of our present and potential future competitors may have access to greater financial, marketing, technical or manufacturing resources, and in some cases, higher brand recognition and more experience than we have. Some competitors may enter markets we serve and sell products at lower prices in order to gain and obtain a greater market share. Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products and services than we can. Current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that

enhance their ability to address the needs of our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Our competitors may also produce products that are equal or superior to our products, or engage in aggressive pricing in order to gain or increase market share, which could subject our products to downward price pressures, reduce our market share, reduce our overall sales and require us to invest additional funds in new technology development or if we are not able to match such lower pricing. This may have a material adverse effect on our business, including our financial position, results of operations and cash flow.

While our continued innovation to the technologies and qualities shown in our products and services may keep us competitive, there is no assurance that we will continue to remain competitive. In the event that we are unable to retain our existing customers and/or attract new customers amidst the competition, our business, results of operations, financial position and cash flow may be materially and adversely affected. Please refer to the section entitled “*Business – Competition*” of this Introductory Document for further details of the competition we face.

We are dependent on our ability to continuously introduce new innovative products through our R&D efforts and to adapt to changes in engineering and production technologies.

The 5G network system, Open RAN and telecommunications equipment industries are characterised by rapid technology changes, constant innovation and keen global competition. The industry is also susceptible to changes in product life cycles. These rapid technological developments require us to consider the regulatory standards, integrate new technology into our products, create new and relevant product categories and adapt to changing business models in a timely manner.

Our competitors may develop or acquire alternative and competing technologies and standards that could allow them to create new and disruptive products and/or produce similar, competitive products at lower costs of production, thus rendering our products less competitive or obsolete. Our ability to compete effectively will therefore depend on our ability to adapt to advancements in engineering and production technologies to meet our customers’ needs, our ability to identify and leverage on new trends in the electronics market and our ability to innovate on our R&D capabilities.

As a result, we may need to invest significant resources in R&D to maintain our market position, keep pace with technological and regulatory changes and compete effectively. Our R&D expenses were HK\$346.8 million, HK\$471.1 million, HK\$608.9 million and HK\$259.5 million in FY2019, FY2020, FY2021 and 6M2022 respectively, representing 6.0%, 9.3%, 10.4% and 8.5% of our Group’s revenue for the same period, respectively. Expenditures incurred in connection with developing new products and/or enhancing our existing products and upgrading of our existing facilities are likely to be incurred in advance of any increased sales. We cannot assure you that our revenue will increase after these expenditures are incurred. Our business and results of operations may be adversely affected if we do not operate as efficiently as our competitors or if we cannot adapt on a timely basis to technological changes or if we are unable to effectively engage in R&D to introduce new products which meet the needs of the market in a timely manner.

We may be required to purchase key components from a limited number of suppliers.

Although we are not dependent on any supplier, we may, from time to time, be required by our customers or otherwise to purchase certain key components used in the manufacturing of our products from a limited number of suppliers.

Lead times for materials and components ordered by us can vary significantly and depend on factors such as the supply and demand for the relevant material or component at a given time. We may face competition for supplies of materials and components, which may drive up prices and increase lead times. Although our operations have not been adversely affected by any shortage or interruptions in supply of key components, we cannot assure you that such shortages or interruptions will not occur, or if our competitors establish arrangements with our suppliers, in which case we would need to explore alternative sourcing options such as engaging independent contract manufacturers. We cannot assure you that we will be able to find alternative suppliers or independent contract manufacturers that are able to comply with our specifications and meet our delivery requirements on acceptable terms and/or in a timely manner, or at all, which could materially and adversely affect our business, results of operations and financial position.

If our growth outpaces our ability to source for new suppliers and/or key components, we may experience difficulty in meeting our delivery requirements. This may impede our ability to grow rapidly, or according to our expansion plans. As costs of key components increase, our profit margins may be materially and adversely affected as well.

We may be affected by changes in raw material costs.

The main raw materials that we use in our manufacturing operations are electronic components, printing board for antenna products, and cables and conductors, which accounted for approximately 6.5%, 5.9% and 5.9% respectively of our Group's production costs for FY2021. An increase in the prices of these raw materials may have a significant impact on our profit margins and our profitability. There is also no assurance that we will be able to pass on all or part of the cost increases to our customers. In the event that we are not able to do so, our profit may be adversely affected.

We face inventory risks that, if not properly managed, could adversely affect our financial condition and operating results.

We are exposed to significant inventory risks that may adversely affect our operating results as a result of increased competition, seasonality, new product or system launches, rapid changes in telecommunications equipment industry and pricing, defective products, changes in consumer demand and consumer spending patterns, and other factors. We endeavour to accurately predict these trends and avoid overstocking or understocking issues. Demand for our products, however, can change significantly between the time inventory or components are ordered and the date of sale. We may not be able to assess customer demand accurately, resulting in inventory build-up and possible significant inventory write-down which could adversely affect our financial condition and operating results.

Unexpected disruptions to our manufacturing facilities and production processes may materially and adversely affect our business operations.

Our revenue is dependent on the continued operation of our manufacturing facilities. Our manufacturing facilities and production processes are subject to operational risks beyond our control including, *inter alia*, fire, breakdown, failure of our equipment and machinery, power shortages, natural disasters and any interruption in our operations as a result of any failure to comply with any applicable laws, regulations and standards. Although we have implemented comprehensive Business Continuity Plans (BCP), if there is any damage to our manufacturing facilities, we may not be able to remedy such situations in a timely and proper manner and our ability to manufacture our products in a timely manner could be materially and adversely affected. Any breakdown or malfunction of any of our equipment could cause a material disruption of our operations. Frequent or prolonged occurrence of any of such events may have a material adverse effect on our business, financial position and results of operation. In addition, if we are not able

to renew the lease for our manufacturing facilities, the ensuing disruption to our operations may materially affect our business, results of operations and financial position.

A serious disruption, such as natural disasters, or impediments such as increases in transportation or fuel costs or labour unrest at any of our manufacturing or warehousing facilities could also damage our inventory and could materially impair our ability to distribute our products to customers, in a timely manner or at a reasonable cost. We could incur significantly higher costs and experience longer lead times associated with distributing our products during the time that it takes for us to procure the services of a replacement facility or wait for such facility to reopen or to replace a logistics facility. We are also susceptible to any problems which may impact international delivery, freight and shipping such as acts of God, wars, political instability and terrorist attacks. Any such disruption to our logistics could materially and adversely affect our business, financial position and results of operations.

We have not encountered any unexpected material disruptions to our manufacturing facilities and production processes for the operation of our business during the Track Record Period, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

Our Group is subject to risks related to the outbreak of communicable diseases including, in particular, the ongoing COVID-19 pandemic.

The outbreak of communicable diseases such as severe acute respiratory syndrome (SARS), H5N1 avian flu, Influenza A (H1N1), MERS, Ebola and most recently, COVID-19, in the countries which we operate may disrupt the operations of our manufacturing facilities and our ability to fulfil the orders of our customers.

In December 2019, the first case of a novel strain of coronavirus, COVID-19, was identified in the PRC. The pandemic has since spread globally to other countries, including multiple regions within Asia, Australia, Italy, Spain, the United States and the United Kingdom, and there have been increased initial infection and fatality rates across the world. On 11 March 2020, the World Health Organisation declared COVID-19 outbreak a pandemic. The COVID-19 pandemic and policies implemented by governments to deter the spread of the disease have had and may continue to have an adverse effect on consumer confidence and the general economic conditions which our Group's business is subject to. Governments of many countries have declared a state of emergency, closed their borders to international travellers and issued stay-at-home orders with a view to containing the pandemic. Since the beginning of 2020, the COVID-19 pandemic has resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across the world. In early 2020, in response to intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included, among others, extending the Chinese New Year holiday, quarantining and otherwise treating individuals who had contracted COVID-19, asking residents to remain at home and to avoid gathering in public. While such restrictive measures have been gradually lifted, our business has been and could continue to be adversely impacted by the effects of the COVID-19 pandemic.

Similarly, the governments in the other countries in which we operate may mandate the closure of businesses, offices and factories based on factors beyond our control. Any failure on our part to properly manage and contain the effects of such outbreaks in our factories could severely disrupt our operations, damage our reputation, and in turn, our relationships with customers. As a result, this may discourage our existing customers, as well as prospective customers, from conducting business with us.

To the extent we have manufacturing facilities, R&D laboratories and offices in these locations, we are susceptible to factors adversely affecting one (1) or more of these locations as a result of COVID-19. Although our manufacturing operations have not stopped since the outbreak of

COVID-19, our results of operations have been and could continue to be adversely affected to the extent the COVID-19 pandemic or any other epidemic harms the economy in general. We have experienced and may continue to experience impacts to certain of our customers and/or suppliers as a result of the COVID-19 pandemic occurring in one or more of these locations, which have materially and adversely affected our business, financial condition, results of operations and cash flows.

The sudden outbreak of the COVID-19 pandemic in early 2020 and the slowdown in the global economy posed headwinds to our Group, and resulted in a substantial delay in the progress of 5G construction globally. Our Group's revenue in FY2020 was HK\$5,057,240,000, representing a decrease of 12.5% as compared to a revenue of HK\$5,779,916,000 in FY2019. Our Group's gross profit for FY2019, FY2020 and FY2021 was HK\$1,776,184,000, HK\$1,445,181,000 and HK\$1,422,831,000 respectively. The gross profit margin for FY2019, FY2020 and FY2021 was 30.7%, 28.6% and 24.2% respectively. The decrease in gross profit margin was mainly due to the change in our Group's product income structure due to the delay in 5G construction during the COVID-19 pandemic, as well as related expenses such as trade tariffs, logistic costs and other increases in costs and expenses as a result of COVID-19. Due to COVID-19, there was a delay in 5G construction, and there was no centralised procurement of base station antenna in the PRC in FY2020. The three (3) main operators in China (i.e. China Telecom, China Unicom and China Mobile) only started the centralised procurement of base station antenna again in the middle of FY2021. This resulted in a significant increase in our antenna revenue. As such, there was a change in our Group's product revenue as well as income structure in FY2020 and FY2021. On the other hand, the deployment in macro cell is still on track despite some delay.

Further, to the extent the COVID-19 pandemic adversely affects our business and financial results, it has and may continue to have the effect of heightening many of the other risks described in this Introductory Document, such as those relating to our level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and our ability to comply with the covenants contained in the agreements that govern our indebtedness. Nonetheless, our Group's financial position remains sound with sufficient working capital.

While the COVID-19 pandemic has gradually been brought under control and there is a gradual economy recovery in light of the availability of vaccines, there is no assurance that the COVID-19 pandemic will not further evolve. There is also no assurance that the spread of COVID-19 will be contained in the near term and the duration of the COVID-19 pandemic and the extent of its adverse effects cannot be determined with certainty at present. As such, in the event that the containment of COVID-19 does not improve in the near term, and results in a prolonged global economic recession, this may have a protracted negative impact on economic and business activities in the countries which we operate in, as well as the countries or regions where our products are sold and our services are engaged.

As a result of COVID-19, normal economic life globally was sharply curtailed and there were disruptions to normal operation of businesses in various areas, including the manufacturing and sales of network products globally. In addition, the ongoing global pandemic may adversely affect the supply chains, which in turn may materially and adversely affect our business and results of operations. The global pandemic may also delay the execution of our overseas market expansion plan. Relaxation of restrictions on economic and social life may lead to new cases, which may lead to the re-imposition of restrictions. As a result, the duration of such business disruption and the resulting financial and operational impact on us cannot be reasonably estimated at this time. While we note that the telecommunications industry is essential and COVID-19 may be unlikely to cause a real devastation in our business or industry, the impact caused by COVID-19 may delay some of our business or the industry growing pace overall. The extent to which the COVID-19 pandemic may further impact our business and financial performance will depend on future developments, which are highly uncertain and largely beyond our control. Even if the economic impact of COVID-19 gradually recedes, the pandemic will have a lingering, long-term effect on business

activities and consumption behaviour. There is no assurance that we will be able to adjust our business operations to adapt to these changes and the increasingly complex environment in which we operate.

We had negative operating cash flow in FY2020 and suffered losses in FY2020 and FY2021.

We had negative operating cashflow in FY2020 mainly as a result of the outbreak of the global COVID-19 pandemic in 2020, and we have since generated positive cash flows from operations in FY2021 and for 6M2022. For FY2019 and 6M2022, we had a net profit attributed to owners of the parent of HK\$151,749,000 and HK\$90,384,000 respectively. We incurred net losses of HK\$194,104,000 and HK\$592,567,000 for FY2020 and FY2021 respectively.

Although we have implemented measures to better regulate our cashflow and increase the amount of accounts receivable collected, as disclosed in the section of this Introductory Document entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*”, there can be no assurance that we will not experience liquidity problems in the future. We may not be able to fulfil our obligation in providing products or services to our users in respect of advances from customers, the failure of which may negatively affect our cash flow position. If we fail to generate sufficient revenue from our operations, or if we fail to maintain sufficient cash and financing, we may not have sufficient cash flows to fund our business, operations and capital expenditure and our business and financial position will be adversely affected.

We have made significant upfront investments in R&D, service network, and sales and marketing to rapidly develop and expand our business. We expect to continue to invest significantly in R&D and sales and service network, and in production capacity expansion, to further develop and expand our business, and these investments may not result in an increase in revenue or positive cash flow on a timely basis, or at all.

We may continue to record net losses in the near future. We may not generate sufficient revenue or we may incur substantial losses for a number of reasons, including lack of demand for our products and services, increasing competition, challenging macro-economic environment due to the COVID-19 pandemic, as well as other risks discussed herein, and we may incur unforeseen expenses, or encounter difficulties, complications and delays in generating revenue or achieving profitability. If we are unable to achieve profitability, we may have to reduce the scale of our operations, which may impact our business growth and adversely affect our financial condition and results of operations. In addition, our continuous operation depends on our capability to improve operating cash flows as well as our capacity to obtain sufficient external equity or debt financing. If we do not succeed in doing so, we may have to limit the scale of our operations, which may limit our business growth and adversely affect our financial condition and results of operations.

We may face challenges in expanding our business and operations internationally and our ability to conduct business in international markets may be adversely affected by legal, regulatory, political and economic risks.

We face challenges and risks associated with expanding our business and operations globally into new geographic markets. New geographic markets may have competitive conditions, user preferences and technological requirements that are more difficult to predict or satisfy than our existing markets. In certain markets, we have relatively little operating experience and may not benefit from any first-to-market advantages or otherwise succeed.

We may also face protectionist policies that could, among other things, hinder our ability to execute our business strategies and put us at a competitive disadvantage relative to domestic companies. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local users, as well as their more established local brand names, requiring us to build brand awareness in that market. International expansion may also require significant capital investment, which could strain our resources and adversely impact current performance, while adding complexity to our current operations. We are subject to Hong Kong law, Cayman Islands law and PRC law in addition to the laws of the foreign countries in which we operate. If any of our overseas operations, or our associates or agents, violate such laws, we could become subject to sanctions or other penalties, which could negatively affect our reputation, business and operating results.

In addition, as the industry that we operate in has a high barrier of entry, we may face issues that could have a material adverse effect on our reputation, business and results of operations, if we encounter issues including, but not limited to, the following:

- lack of acceptance of our products and services, and challenges of localising our offerings/ services to appeal to local demands;
- conforming our products to regulatory and safety requirements and other telecommunication systems and/or infrastructures;
- failure to attract and retain capable talents with international perspectives who can effectively manage and operate local businesses;
- challenges in identifying appropriate local business partners and establishing and maintaining good working relationships with them;
- availability, reliability and security of international payment systems and logistics infrastructure;
- challenges of maintaining efficient and consolidated internal systems, including technology infrastructure, and of achieving customisation and integration of these systems with the other parts of our technology platform;
- challenges in replicating or adapting our Company policies and procedures to operating environments different from that of our Company's present policies and procedures;
- national security policies that restrict our ability to utilise technologies that are deemed by local governmental regulators to pose a threat to their national security;
- political, social or economic instability in the jurisdictions that we operate;
- the need for increased resources to manage regulatory compliance across our international businesses;
- compliance with privacy laws and data security laws and compliance costs across different legal systems;
- heightened restrictions and barriers on the transfer of data between different jurisdictions;
- differing, complex and potentially adverse customs, import/export laws, tax rules and regulations or other trade barriers or restrictions related to compliance obligations and consequences of non-compliance, and any new developments in these areas;

- business licensing or certification requirements of the local markets;
- exchange rate fluctuations;
- any regulations or sanctions imposed on our customers; and
- political instability and general economic or political conditions in particular countries or regions, including territorial or trade disputes, war and terrorism.

Failure to manage these risks and challenges could negatively affect our ability to expand our business and operations overseas as well as materially and adversely affect our business, financial condition and results of operations.

We may incur increased costs associated with compliance with laws of the differing jurisdictions in which we operate in, including any variation thereof.

Laws and regulations in other countries vary and change over time. These laws may also be complex or loosely defined, and at times conflicting in nature, intent, or interpretation, in certain countries in which we operate. Many are untested in courts and can have different interpretation and guidance, even from the same regulators, and enforcement of such laws may be inconsistent. An adverse development related to any of the abovementioned factors and other risks associated with international trade may have a material and adverse effect on our business, financial position, results of operations and prospects if our Company is unable to adapt our business strategies or operations accordingly.

Should we be subject to any new or additional tariffs for our products, or if our customers are unwilling to continue to bear such tariffs or additional tariffs, such tariffs may reduce our price competitiveness and negatively impact our sales, financial performance, cash flows and prospects. Any changes in trade policy by any of the world's major trading powers could trigger retaliatory actions by affected countries, resulting in "trade wars" where states increasingly raise or create tariffs.

We maintain business and contractual relationships with customers and suppliers across different jurisdictions. Our contracts with such customers and suppliers may therefore be subject to the laws of the countries where such customers and suppliers are situated within. There is no assurance that the relevant laws, regulations and guidelines in such jurisdictions will not change. In the event that there are any such changes in the relevant laws, regulations and guidelines applicable to our business, such changes in the relevant laws and regulations may impose additional obligations on top of our existing contractual obligations, or modify or change the nature of our contractual obligations with such customers and suppliers. We may also incur additional costs on compliance and obtaining advice on the interpretation of such changes in the relevant laws, regulations and guidelines, and on the possible effects on our contractual relationships with such customers and suppliers in the affected jurisdictions. If we fail to comply with such amended and/or new laws and regulations, our business, results of operations and financial position may be adversely affected.

Our manufacturing operations are exposed to risks in relation to environmental protection and rehabilitation.

Our manufacturing operations are subject to environmental risks and hazards, and are regulated under various laws, rules and regulations imposed by the governments in the jurisdictions in which we operate regarding environmental matters, such as prevention of pollution of the air, earth and water, the treatment and discharge of hazardous wastes and materials and environmental rehabilitation.

Environmental hazards may occur in connection with our manufacturing operations as a result of human negligence, *force majeure* or otherwise. The occurrence of any environmental hazards may delay production, increase production costs, cause personal injuries and/or property damage, result in liabilities incurred by our Group and/or damage our Group's reputation. Such incidents may also result in a breach of the conditions of our Group's environmental approvals and/or other consents, approvals or authorisations, which may result in fines, penalties, or even possible revocation of the permits, licences and rights granted to us. In any of such events, our business, results of operations and financial position will be adversely affected.

Increasingly stringent environmental laws, regulations and policies may be implemented in the future. These may result in increased costs of production arising from compliance with environmental laws and regulations. We may not always be able to comply with existing or future laws, regulations or policies in relation to environmental protection and rehabilitation economically or at all. Should we fail to comply with any such existing or future laws, regulations or policies, we may be subject to penalties and liabilities under the laws and regulations of the jurisdictions where our manufacturing facilities are located, including but not limited to warnings, fines, prosecution, suspension of production and closure of the facility that fails to comply with the relevant environmental standards. In addition, we may also be subject to actions by environmental protection groups or other interested persons who object to the actual or perceived environmental impact of our manufacturing operations or other actual or perceived condition at our manufacturing facilities. These actions may delay or halt production or may create negative publicity related to our manufacturing facilities. Accordingly, our results of operations and financial position will be adversely affected in such circumstances.

We have not encountered any material environmental hazards in connection with our manufacturing operations during the Track Record Period, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

Any delay in our plans to increase our manufacturing capacity may adversely affect our results of operations.

As we aim to operate our equipment at or near its full capacity, our ability to respond to increasing demand for our products and growth in our revenue is limited by our manufacturing capacity. This in turn limits the future growth of our Group. Therefore, in order for us to achieve a significant increase in our revenue, we will have to expand our manufacturing capacity. Successful expansion of our capacity will require significant capital expenditure. In addition, we will need to hire, train and manage additional production staff to successfully increase our manufacturing capacity. Delays for any reason in our plans to increase our capacity would limit our ability to increase our sales volume thereby affecting our results of operations. We also cannot assure you that we will be able to successfully manage an expansion of our manufacturing capacity as there may be additional factors outside of our control which impact our ability to increase our production capacity. Please refer to the section entitled "*Business – Production Facilities and Capacity*" of this Introductory Document for further details on our production facilities and capacity.

Our service and manufacturing facilities and processes are subject to quality management system certifications and customers' qualification audits and we are subject to the risk of failing to meet, maintain or renew such certifications or the revoking of such certifications.

We have obtained the requisite quality management system certifications which are required for us to carry on our business with our customers. Please refer to the section entitled "*Business – Quality Assurance and Certifications*" of this Introductory Document for further details and we must be able to continually obtain and maintain the relevant certifications for our business. If we

are unable to meet, maintain or renew such certifications or if our current certifications are revoked, our business, results of operation, financial position and cash flow will be adversely affected.

In addition, our service and manufacturing facilities and processes may be subject to audit by some of our customers before we are qualified to undertake job orders. In the case of potential customers, they will need to satisfy themselves that our service and manufacturing facilities and processes are in accordance with their needs and requirements. Failure in maintaining these certificates may adversely affect our business and results of operations.

We have not encountered any failure to maintain or renew all necessary certifications and customers' qualification audits which may result in a material adverse impact on our operations, financial position and results of operations during the Track Record Period, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

We may face changes to the legal or regulatory landscape relating to our products or litigation relating to unknown or unforeseen risks with the use of our products.

Products of the telecommunications equipment industry are often subject to some of the highest regulatory standards around the globe. Our products and services may be subject to unexpected and unforeseen changes to the regulatory regimes such as regulations related to, but not limited to, export control, health and safety, hazardous materials usage, product-related energy consumption, packaging, manufacturing methods, sustainability matters, recycling and environmental matters. In addition, some of our untested products may carry with them unknown or unforeseen risks to consumers' health and safety, which could expose us to future litigation. Should any of these events occur, our business, results of operations and financial performance could be materially and adversely affected.

We have not encountered any changes to the legal or regulatory landscape which had any material impact on our new products or any material litigation relating to the use of our products during the Track Record Period, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

We may incur costs and liabilities as a result of product liability claims.

We generally provide warranties for certain of our products to our customers for a period of between 12 months to 24 months, under which faulty products are repaired or replaced. If our products are found to contain defects, we may be required to compensate our customers and/or incur additional expenses for any remedial actions to be taken to rectify and make good such defects. We may also have to conduct product recall exercises if our products are found to be defective, dangerous or unsafe. While we have implemented quality assurance procedures, there is no assurance that our products will always be able to satisfy our customers' quality standards and/or products specifications.

Furthermore, warranties provided by suppliers relating to defective components or faulty manufacturing may be for periods shorter than the warranty periods we provide to our customers and warranty claims against suppliers may be subject to certain conditions precedent which may not be satisfied.

We are subject to laws and regulations relating to product liability arising from the manufacture and/or sale of our products. Product liability can arise from any number of issues with products, including defective components (such as batteries in products which may unexpectedly ignite), marketing or "failure-to-warn" liability (including warning related to radio emission from portable

electronic devices), design defects or faulty manufacturing. In addition, we may incur liability under our contracts with our customers for any loss or damage suffered by third parties arising from defects in products supplied by us, if such loss or damage is the result of a defect attributable to our negligence. In addition, we may incur liability under our contracts with our customers for defective products or non-compliance with their specifications. Further, we may also have to recall our products if there are allegations of our products being unsafe which may adversely affect our reputation.

Indemnification arrangements which we may have with our suppliers may not cover the types of claims made against us or may be limited in amount, or the suppliers may not be creditworthy or able to pay. If we are subject to product liability claims or if we attempt to enforce indemnification arrangements, we may incur increased litigation costs and our management's attention may be diverted. Should any of these events occur, our business, results of operations and financial performance could be materially and adversely affected. In anticipation of warranty expenses, we make provisions for the estimated liability associated with product warranties and costs relating to product failure. However, these warranties and related provisions for product failure may be inadequate due to changes in various estimates for material, labour and other costs we may incur to replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established products. Other costs such as reputational damage may also be incurred should product liability issues arise. Such exposure may materially and adversely affect our business, financial position and results of operations.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. We maintain a comprehensive general liability insurance policy which covers, among others, product liability and warranty claims. If such coverage is insufficient or inadequate due to the nature of the claim, we may not be able to obtain further insurance coverage on acceptable terms or insurance that will provide adequate coverage against potential claims. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities and this could materially and adversely affect our business, financial position and results of operations. Product liability claims could also damage our brand and our reputation for quality premium products, regardless of the ultimate outcome.

Any defects or errors in our products and services or failure to satisfy the requirements of our customers could result in adverse customer reaction towards us. These include negative publicity, additional expenditure to correct problems and claims against us. These claims may include payment for recall of products, or to indemnify our customers for the costs of any such claims or recalls which they face as a result of using our products.

While we have not experienced any material product recalls, material product liability claims, and material costs and liabilities as a result of product liability claims or warranty exposure during the Track Record Period, we cannot assure you that we will not face such claims in the future.

Confidential information leakages and/or cyber security breaches could result in significant reputational harm and monetary damages.

Our business relies heavily on the value and secrecy of our experience and expertise, knowledge of confidential information and trade secrets, as well as ownership of intellectual property, including our patents, designs and prototypes. Our business also involves the storage and transmission of confidential information, including certain financial, employee and operational information, as well as confidential information obtained from our customers and suppliers. We sign non-disclosure agreements with our existing and potential business partners and our employees to protect confidential information, trade secrets and/or ownership of intellectual property. Security breaches could expose us to unauthorised disclosure of this information, litigation and possible liability, as well as damage to our relationships with our customers and

suppliers. Moreover, as a leading provider of telecommunication equipment products, our business may be exposed to risks of cybersecurity threats, data privacy breaches as well as other network security and stability risks. The scale and level of sophistication of cyber security threats have increased especially in recent times. Computer viruses, malware, ransomware, worms, or trojans may harm our systems or our products or cause the loss or alteration of data and the transmission of computer viruses or malware via our technology could expose us to litigation and a loss of confidence in the security of our technology, as well as regulatory investigations and penalties. Disruptions to our Group's information technology systems caused by cyber-attacks or otherwise could therefore have a material adverse effect on our business, financial position, results of operations and prospects.

Although our security measures are implemented in accordance with ISO 27001 (an international standard for information security management), if our security measures are breached as a result of third-party action, employee or contractor error, malfeasance or otherwise, such unauthorised access to confidential information could damage our business and reputation. In addition, the perpetrators of such illegal such activity often are very sophisticated and can hire other parties with significant resources at their disposal. If an actual or perceived security breach occurs, the market perception of our security measures could be harmed and we could lose both customers and revenue. Any significant violations of data protection or other security breaches could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely impact our business, results of operations, cash flows and financial position.

Additionally, third parties may attempt to fraudulently induce employees, our customers, our suppliers or third-party providers into disclosing sensitive information such as customer names, passwords or other information in order to gain access to our data or our customers' data, which could result insignificant legal and financial exposure and a loss of confidence in the security of our products and services and, ultimately, harm to our future business prospects. We may be required to expend significant resources to protect against such threats or to alleviate problems caused by breaches in security.

Whilst we have not encountered any failure to properly safeguard confidential information that had resulted in material reputational harm and monetary damages to our Group during the Track Record Period and we generally comply with industry standards and are subject to the terms of our own privacy policies, there is no guarantee that we will not, in the future, encounter any incidents involving leakage of confidential information or breaches of cyber security laws that would have an adverse impact on our business prospects and reputation. Although our Company complies in all material respects with all the applicable laws and regulations in relation to data protection and information security that would materially affect our business operations as of the date of this Introductory Document, compliance with any additional laws that may apply to our Company from time to time could be expensive, and may place restrictions on the conduct of our business and the manner in which we interact with our customers. Any failure to comply with applicable regulations could also result in regulatory enforcement actions against us, and misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental entities or others, damage to our reputation and credibility and could have a negative impact on revenues and profits.

Significant capital and other resources may be required to protect against information security breaches or to alleviate problems caused by such breaches or to comply with our privacy policies or privacy-related legal obligations. The resources required may increase over time as the methods used by hackers and others engaged in online criminal activities are increasingly sophisticated and constantly evolving. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any

compromise of security that results in the unauthorised release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us and could expose us to legal claims.

Our information systems are protected through physical and software safeguards. They may, however, be subject to disruptions due to storms, floods, fires, terrorist acts, power loss, telecommunications failures, physical or software break-ins, computer viruses and similar events. If our critical information systems fail or are otherwise unavailable, we would have to accomplish these functions manually, which could temporarily impact our ability to identify business opportunities quickly, to maintain records reliably and to bill for products sold and services rendered efficiently. Although our Group has implemented procedures to mitigate technology risk and will continue to take steps to protect the security of the data maintained in our information systems, it is possible that such security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber-attacks, phishing and malicious software such as ransomware. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorised disclosure of confidential information. Any failure to maintain proper function, security and availability of our Group's information systems could interrupt our operations, damage our reputation, subject our Group to liability claims or regulatory penalties and could materially and adversely affect our Group. In addition, we depend on third-party vendors or software and operating systems supplied by third party vendors for certain functions whose future performance and reliability we cannot warrant.

Our business is subject to a variety of laws, regulations, rules, policies and other obligations regarding cybersecurity, privacy, data protection and information security. Any failure to comply with these laws, regulations and other obligations or any losses, unauthorised access or releases of confidential information or personal data could subject us to significant reputational, financial, legal and operational consequences.

Collection, possession and use of our customers' data in conducting our business may subject us to legislative and regulatory burdens in various jurisdictions that could require notification of any data breach, restrict our use of such information and hinder our ability to acquire new customers or market to existing customers. If customers allege that we have improperly collected, used, transmitted, released or disclosed their personal information, we could face legal claims and reputational damage. We may incur significant expenses to comply with privacy, consumer protection and security standards and protocols imposed by laws, regulations, industry standards or contractual obligations. If third parties improperly obtain and use the personal information of our customers, we may be required to expend significant resources to resolve these problems.

In general, we will need to comply with data security and data protection laws and regulations implemented by regulators, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. Please refer to the section entitled "*Regulations*" of this Introductory Document for more information. If we are unable to comply with such laws and regulations or manage such risks, we could become subject to penalties, including fines, suspension of business and revocation of required licences, and our reputation and results of operations could be materially and adversely affected.

There were no such past incidents which had a material adverse impact on our Group's business operations and/or financials, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

We are exposed to the risk of claims by third parties of an infringement of their intellectual property rights which may be costly to resolve.

We develop products using components sourced from third party manufacturers in the course of our business. As such, we cannot be sure that the products, services, technologies and advertising we employ in our business do not or will not infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties. We may therefore be subject, in the ordinary course of our business, to legal proceedings and claims from time to time relating to the intellectual property of others, which could have a material adverse effect on our business, financial position and results of operation.

Such risks may be mitigated by carrying out a comprehensive intellectual property investigation for each and every product ordered by a customer and some of the components used in the products. Although we have internal policies (such as measures for patent administration, measures for trademark administration, measures for the management of trade secrets and intellectual property management measures during exhibition) to safeguard intellectual property rights and to mitigate the risk of infringement of such rights, there can be no assurance that such internal policies and measures will be sufficient to safeguard us from any infringement of intellectual property claims both instituted by our Group as well as claims made against our Group. Moreover, due to the number of products manufactured by our Group, the number of components used and the costs involved, it will be extremely onerous and impractical for our Group to conduct such a comprehensive intellectual property investigation. Based on our knowledge of industry practices, none of our peers conduct such investigations when accepting orders from a customer or when ordering a component. In any event, if there is any such claim of infringement made against our Group, our Group may have recourse against the relevant customer or supplier.

In the event we are subject to such legal proceedings and claims, we could incur substantial financial and time costs in, as well as devote significant management resources to, defending any such infringement claims. While we will seek indemnification from such infringement claims from the manufacturers of the offending component, we cannot assure you that we will be able to recover from such third-party suppliers the full amount of damages which we are to pay to successful claimants, if any. Indemnification arrangements which we may have with our suppliers may not cover the types of claims made against us or may be limited in amount, or the suppliers may not be creditworthy or able to pay.

In addition, our collaboration and joint venture partners may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardise or invalidate our intellectual property or proprietary information or expose us to potential litigation. They may also infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability. Any legal action against us claiming damages or seeking to restrain us from engaging in commercial activities relating to the affected products, methods or processes may:

- require us, or our partners, to obtain a licence to continue to use, manufacture or market the affected products, methods or processes, and such a licence may not be available on commercially reasonable terms, if at all;
- prevent us from making, using or selling the subject matter claimed in patents held by others and subject us to potential liability for damages;
- consume a substantial portion of our managerial and financial resources; and/or
- result in litigation or administrative proceedings that may be costly, whether resolved in our favour or not.

We have not encountered any material adverse impact on our business, results of operations, financial position and cash flow arising from third parties counterfeiting our products, or due to claims that our products infringe third party intellectual property rights, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

We may be subjected to infringement of our intellectual property rights.

In the course of our business, we rely on certain intellectual property rights such as patents and trademarks, details of which are set out in the section entitled “*Business – Intellectual Property*” of this Introductory Document. Our success depends, in part, on our ability to obtain, maintain and defend our intellectual property rights, which we believe are critical to our business.

The technologies and processes covered by our patents may be found to be obvious or substantially similar to prior work, which could render these patents unenforceable. Furthermore, there can be no assurance that pending patent applications will result in issued patents, that future patent applications will be issued, that patents issued to or licenced by us will not be challenged or circumvented by competitors or that such patents will be found to be valid or sufficiently broad to protect our technologies or to provide us with a competitive advantage. The coverage of patents is subject to interpretation by the courts, and such interpretation is not always uniform or predictable.

Due to the fast-moving nature of the electronics industry, certain product life cycles are short and new products are pushed to the market on a regular basis. Marketing and creating consumer awareness of our products to generate demand is therefore crucial and time-sensitive as the “first-mover” advantage has a significant impact on purchasing habits of our customers and consumers. As such, some of our products may not be protected or registered by patents in order to fully maximise the “first-mover” advantage in new product categories. We may thus not be able to enforce our inherent intellectual property rights in our products against third party infringement.

Other companies may also be able to copy our hardware or software by reverse engineering or otherwise copying the results of our R&D at a lower cost than what it cost us to design and develop. Such counterfeit copies of our hardware and software may harm our business and reputation in various ways. For instance, counterfeit products and services are often offered at a significant discount to what the original developer and designer offers, which would divert sales away from us. Moreover, counterfeit products are not subject to the same standard of stringent testing which our products are required to undergo, and are often of inferior or poor quality. In addition, some purchasers of counterfeit copies of our products may have otherwise purchased our legitimate products. Furthermore, the presence of counterfeits of our products in the market could have a negative impact on, and dilute, the value and image of our brand and result in a loss of consumer confidence in our brand. The occurrence of any of the above events could materially and adversely affect our business, results of operations, financial position and cash flow.

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names, which we need to build name recognition by potential partners or customers in our markets of interest. Furthermore, it can be difficult and costly to defend trade marks from encroachment or misappropriation. Over the long term, if we are unable to establish name recognition based on our trademarks and trade names and stop counterfeits of our products, we may not be able to compete effectively and our business, financial position and results of operations may be materially and adversely affected.

Where a competitor infringes on our patent or other intellectual property rights, we intend to enforce such intellectual property rights when we determine that a successful outcome is probable and may lead to an increase in or protect the value of the intellectual property. If we choose to enforce our intellectual property rights against a party, that individual or company has the right to ask the court to rule that such intellectual property rights are invalid or should not be enforced. These lawsuits and proceedings are expensive and would consume time and resources and divert the attention of our managerial and skilled personnel even if we were successful in stopping the infringement of such intellectual property rights. In addition, there is a risk that the court will decide that such intellectual property rights are not valid and that we do not have the right to stop the other party from using the inventions. There is also the risk that, even if the validity of such intellectual property rights is upheld, the court will refuse to stop the other party on the ground that such other party's activities do not infringe our intellectual property rights.

We rely on confidentiality agreements with our Executive Directors and employees, which provide that all confidential information developed by or made known to the individual during the individual's relationship with us is to be kept confidential and not disclosed to third parties before it becomes public. In addition, our management team and R&D employees have entered into intellectual property, confidentiality and non-compete agreements with us, which provide that all of the technologies conceived by the relevant individuals arising from their performance of duties or use of our materials or technologies are the exclusive property of our Group. We have also entered into agreements with confidentiality provisions with our consultants and other advisors. However, these agreements may not be honoured, may not effectively assign intellectual property rights to us, and may not provide adequate remedies in the event of a breach. Moreover, enforcing a claim against a party that illegally obtained intellectual property rights is difficult, expensive and time-consuming and we cannot assure you that the outcome will always be favourable.

Any failure to enforce our intellectual property rights or to defend any legal proceedings regarding our intellectual property rights, may materially and adversely affect our business, financial position and results of operations.

Save as disclosed in the section entitled "*General and Statutory Information – Material Litigation*" of this Introductory Document, we have not experienced any of the above events in the past which had a material impact on our business, financial position and results of operations, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

We may be affected by the cost and impact of future disputes and/or litigation.

Save as disclosed in the section entitled "*General and Statutory Information – Material Litigation*" of this Introductory Document, we are not currently engaged in any material disputes or subject to any material litigation. However, we may, from time to time, be involved in litigation in the course of our business and in the event of disputes of, *inter alia*, any successful product liability claim or series of claims brought against us, we may become involved in disputes and litigation in the future. Managing disputes and/or litigation can be expensive and disruptive to normal business operations, including to management due to the increased time and resources required to respond to and address any dispute and/or litigation. An unfavourable outcome of any particular matter or any future legal proceedings or costs related to the settlement of any such proceedings could have a material adverse effect on our business, financial position and results of operations.

Our insurance coverage may not be adequate to indemnify us against all possible liabilities.

We are exposed to various risks arising from our business operations, including without limitation the risk of explosion, fire, natural disasters, machinery or equipment failure, improper installation and accidents. These risks could cause injury, death or damage or destruction to property, which may result in our operations being suspended or disrupted. We may also face civil and/or criminal penalties arising from any such incidents.

We maintain insurance coverage that is necessary and customary for the business in which we operate, and to the extent insurance is available on reasonable terms. Please refer to the section entitled “*Business – Insurance*” of this Introductory Document for further details of our existing insurance coverage. However, there can be no assurance that such insurance can be obtained on commercially reasonable terms or at all, or that any such coverage will sufficiently cover any losses suffered by us. The occurrence of a significant event or adverse claim in excess of the insurance coverage that we maintain, or that is not covered by our insurance, could result in our Group having to pay compensation or damages and/or incur loss of revenue and could have a material adverse effect on our financial position and results of operations.

We are dependent on the services of our executive directors and executive officers.

One of the key drivers for the growth of our Group to date has been our ability to attract and retain a team of experienced professional managers including our executive directors and executive officers. See the section entitled “*Management and Corporate Governance – Directors and Executive Officers*” of this Introductory Document for further details. Our continued success will depend on our ability to retain our executive directors and Executive Officers and to attract and train new managers as well as experienced and qualified telecommunications professionals to work for our Group. The in-depth knowledge, relevant experience and commitment of our key management and executives are instrumental to our development and growth. As such, any loss of our senior management team without satisfactory replacements will have an adverse impact on our business. In addition, the process of hiring new managers with the required combination of skills and attributes may be time-consuming and competitive. If we are unable to attract additional qualified persons to complement our expansion plans, our business and results of operations may be adversely affected.

We are reliant on experienced staff to create and design our products, and are dependent on our ability to attract and retain such personnel and to maintain labour costs.

Our ability to design and produce quality products relevant to the needs of our customers as well as plans for expansion depend heavily on the expertise and ability of our existing skilled personnel to create, design and customise our products to suit the demands and needs of our customers, and may depend on our ability to hire more of such specialised personnel in the future. We also rely on skilled and experienced personnel for our business operations and the operation of the production lines at our manufacturing facilities. Demand for such experienced staff and skilled personnel is high.

We recognise that there are competing demands for such personnel among manufacturers in our industry. Our future growth and expansion will depend on our ability not only to retain the existing skilled personnel, but to continue employing suitable skilled personnel at a rate consistent with our business growth. In the event that we are unable to retain or hire the services of adequate skilled specialised personnel and we are required to train new staff, the time required and costs to be incurred to train such personnel may affect our cost competitiveness or new product relevance, which may in turn adversely affect our financial performance. There is no assurance that we will be able to continuously recruit suitable skilled personnel in a timely and cost-efficient manner or at all. If there is a shortage of such skilled personnel, our business, financial position, results of

operations and prospects may be materially and adversely affected. Additionally, if any of our skilled and experienced personnel were to join a competitor or form a competing company, we may lose technical know-how, trade secrets, customers and staff.

In order to incentivise and retain valuable employees, in addition to salary, cash and other incentives, we have adopted the Share Award Scheme, the 2013 Scheme and the Share Incentive Scheme to recognise the contributions of our employees, directors and consultants. Please refer to the section entitled “*Management and Corporate Governance – Compensation of Directors and Executive Officers– Summary of the Share Incentive Scheme*” of this Introductory Document for more details. However, the value of shares awarded under the Share Award Scheme and 2013 Scheme that vest over time to employees will be significantly affected by movements in the Share price of our Company that are beyond our control, and may at any time be insufficient to counteract offers from other companies, including competitors. We may also need to increase our total compensation costs to attract and retain experienced personnel required to achieve our business objectives and staff our expanding business, and failure to do so could severely disrupt our business and growth. As a result, our profitability may be affected.

Our Group’s business and expansion plans are capital intensive and may require further financing for future growth.

During the Track Record Period, our Group relied largely on internal resources as well as borrowings from banks and financial institutions to finance our working capital and capital expenditure. Although we have been able to rely on such means to fund our business, we cannot assure you that we will be able to continue to obtain or rely on such financing support in the future. In the event that we are unable to obtain the required financing and do not have sufficient cashflow to fund our business and/or working capital requirements, our Group’s business, financial position, results of operations, cash flows, working capital and/or prospects may be materially and adversely affected.

We may come across potential business opportunities that may be favourable to our Group’s future growth and prospects. Under such circumstances, we may require additional capital through equity or debt financing. Our Group’s ability to raise capital is dependent on factors including, among other things, the prevailing economic conditions globally, our Group’s ongoing financial position and results of operations, the state of the capital and credit markets, government regulations and the acceptability of the funding terms offered.

We are unable to assure you that our Group will be able to obtain additional funds, either on a short-term or a longer-term basis, when capital is required. If our Group is unable to secure necessary funding or secure such funding on terms which are favourable to us, or at all, whether through external debt financing, equity financing and/or internally generated cash flows, our business, results of operations and financial position may be materially and adversely affected.

We may seek to obtain future financing through the issuance of debt or equity, which may have an adverse effect on our Shareholders or may otherwise adversely affect our business.

If we raise funds through the issuance of additional equity or debt, including convertible debt or debt secured by some or all our assets, holders of any debt securities or preferred shares issued will have rights, preferences and privileges senior to those of holders of our Shares in the event of liquidation. If additional debt is issued, there is a possibility that once all senior claims are settled, there may be no assets remaining to pay out to the holders of Shares. In addition, if we raise funds through the issuance of additional equity, whether through private placements or public offerings, such an issuance would dilute the interests of our current Shareholders that do not participate in the issuance. If we are unable to obtain any needed additional funding, we may

be required to reduce the scope of, delay, or eliminate some or all of, our planned research, development, manufacturing and marketing activities, any of which could materially and adversely affect our business.

Furthermore, the terms of any debt securities we may issue in the future may impose restrictions on our operations, which may include limiting our ability to incur additional indebtedness, pay dividends on or repurchase our share capital, or make certain acquisitions or investments, or otherwise restrict our freedom to operate our business by requiring lenders' consent for certain corporate actions. In addition, we may be subject to covenants requiring us to satisfy certain financial tests and ratios, and our ability to satisfy such covenants may be affected by events outside of our control. There is no assurance that we will be able to obtain additional financing on terms that are favourable and acceptable. If we are not able to secure adequate financing, our business and growth may be negatively affected.

We are or may be subject to risks associated with strategic alliances or acquisitions.

We have entered into and may in the future enter into strategic alliances, including joint ventures or minority equity investments, with various third parties to further our business purpose from time to time. These alliances could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third party and increased expenses in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic third parties suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third party.

In addition, we may acquire additional assets, products, technologies or businesses that are complementary to our existing business. In addition to possible shareholder approval, we may have to obtain approvals and licences from relevant government authorities for the acquisitions and to comply with any applicable laws and regulations, which could result in increased delay and costs, and may derail our business strategy if we fail to do so. Furthermore, past and future acquisitions and the subsequent integration of new assets and businesses into our own require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our operations. Acquired assets or businesses may not generate the financial results we expect. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortisation expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant.

Our business, financial condition and results of operations may be adversely affected by fluctuations in exchange rates and foreign exchange controls.

Our Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK\$ and US\$. As at 31 December 2021, our Group has outstanding non-deliverable foreign currency option contracts in respect of Thai Baht, Indian Rupee and Renminbi with notional amounts of US\$4,000,000, US\$10,000,000 and RMB175,000,000 respectively. As at 31 December 2020, our Group had 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.

As at 31 December 2021, our Group's cash and bank balances were mainly denominated in RMB, HK\$ and US\$ while our Group's bank borrowings were mainly denominated in RMB and HK\$. The interest rates on our Group's bank borrowings are principally on a floating basis at prevailing market rates.

As a result, fluctuations in the exchange rates between the HK\$, U.S. dollar, Renminbi or other currencies could adversely affect our business, financial condition and results of operations. For example, to the extent that we need to convert U.S. dollars we receive into RMB to pay our operating expenses, appreciation of RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of RMB against the HK\$ may significantly reduce the HK\$ equivalent of our earnings.

In addition, at present, the RMB is not freely convertible to other foreign currencies and, in certain cases, the remittance of currency out of the PRC is restricted. FIEs are required to complete the foreign exchange registration through a designated bank of SAFE, which allows an FIE to open foreign currency accounts for the payment of (a) current items, including any international receipts and payments involving goods, services, earnings, and frequent transfers (“**current account**”) and (b) capital items, including any international receipts and payments that result in any change in external assets and liabilities, for instance, capital transfers, direct investments, securities investments, derivatives, and loans (“**capital account**”).

Under existing PRC foreign exchange regulations, currency transactions within the scope of the current account, including profit distributions, interest payments and expenditures from trade-related transactions, can be effected without requiring the approval of SAFE by complying with certain procedural requirements, while the payment under capital account will require the approval of or registration with SAFE or its local branch or its designated banks. The restrictions on foreign exchange transactions under capital account could also affect the ability of our PRC subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us.

We primarily mitigate foreign exchange risks by managing foreign exchange income and expenses in the same currency (natural hedge) as our labour cost and purchases of raw materials are mainly transacted in RMB and 75%, 72%, 69% and 71% of our revenue were transacted in RMB for FY2019, FY2020, FY2021 and 6M2022 respectively. Notwithstanding the above, we also occasionally enter into hedging instruments to manage our residual foreign exchange risks. Our Group will continue to closely monitor the fluctuation of exchange rate in other currencies as well and will consider hedging such foreign currencies should the need arise.

We face risks associated with our loan facilities and the fluctuation of interest rates.

Our Company and our subsidiaries have from time to time entered into short-term and long-term financing arrangements with financial institutions to secure funds for our business operations and/or investments. Under the terms of such financing arrangements, we are subject to interest payment and loan repayment obligations, as well as restrictive covenants or other obligations which may include, among others, the maintenance of financial ratios, prohibition on the creation of encumbrances over our assets, restrictions on change of control, and minimum insurance coverage.

Our ability to secure loans or repay or refinance our debt obligations in a timely manner depends on our operating results and financial position at the relevant time, which are subject to prevailing market and economic conditions and various other factors, some of which may be beyond our control. There is no assurance that we will be able to maintain a level of cash flows from operating activities or financing activities that will be sufficient to pay or repay the principal, interest or other required payments on indebtedness.

Further, a majority of our loan facilities incur interest at floating interest rates. The interest rates which we are charged will expose our Group to risks associated with debt financing, including exposure to fluctuations in interest rates and insufficient cash flows to meet required payments of the principal amount and interest under such financing. A material increase in interest rates would

increase borrowing and finance costs, which may in turn weaken our Group's financial standing when seeking future financing for our expansion or other funding requirements.

Our Group will also be subject to the risk that our existing borrowings may be terminated by the financial institutions upon the occurrence of certain events (such as a breach of covenants, the failure to make interest payments and/or rectify any breach in the agreements) or we may not be able to refinance our existing borrowings or the terms of any refinancing will not be as favourable as the terms of our existing borrowings. This may adversely affect the business, results of operations, financial condition and prospects of our Group.

As at 30 June 2022, we had total borrowings of HK\$1,612 million. Accordingly, we will be required to service these borrowings and/or any additional borrowings drawn down by us and will be subject to risks normally associated with debt financing, including the risk that our cash flows in the future may be insufficient to meet the required payments of principal and interest of such bank loans. There is no assurance that we will be able to roll over or refinance such bank loans when they eventually mature in the future, on similar or more favourable terms, or at all. In addition, the bank loans contain restrictive covenants with respect to financial and operational matters including restrictions on payment of dividends by us. Any future breach of covenants by us in connection with the bank loans may constitute an event of default under the relevant loan agreements, which may in turn, result in us having to repay such bank loans immediately. If any of such events occur, our cash flows and liquidity and consequently, our business operations may be adversely affected. We may be unable to refinance our indebtedness (if any) on favourable terms and in a timely manner, or at all. Further, if the interest costs on our borrowings increase significantly, our results of operations will also be adversely affected.

There have been no incidents of loan covenant breaches that had a material adverse impact on our Group's business operations and/or financials, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

Our business may be negatively impacted by natural disasters, acts of war, terrorist attacks, political unrest and other events.

Our Group's business and operations may be materially and adversely affected by events beyond the control of our Group, including but not limited to natural catastrophes, political unrest, war and terrorist attacks. Natural catastrophes such as the outbreak of fire, flood, typhoon and earthquake may materially and adversely affect the economy, infrastructure and livelihood of the geographical locations in which our Group may operate. There can be no assurance that any war, terrorist attack, political unrest, or other hostilities in any part of the world, potential, threatened or otherwise, will not, directly or indirectly, have a material and adverse effect on our Group's business, results of operations, financial position and cash flow.

Our Company may be adversely affected by the uncertain global economic outlook.

Our Group's business, financial condition, results of operations, profitability and prospects may be affected by general global economic conditions. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a result of liberal monetary policy or excessive foreign fund inflow, or both. Brexit has resulted in volatility in global financial markets, and it is expected to create mid-to long-term economic uncertainty to not only the economies of the United Kingdom and the European Union but also globally.

In addition, geo-political issues and controversy over trade barriers have triggered the implementation or proposed implementation of tariffs on certain imported products into the different nations. Fast changing trade policies could significantly undermine the stability of the global economies.

More recently, the COVID-19 pandemic has adversely affected the global financial, foreign exchange, commodity and energy markets. There is no assurance that such measures will be effective in ending or deterring the spread of COVID-19. COVID-19 has brought about disruptions to the supply chain and reduced levels of consumption, commercial activities and industrial production, which may result in an economic slowdown in affected economies which, if prolonged, could cause a global recession. While central banks of different countries, including the Federal Reserve Board of Governors of the United States, have cut policy rates and/or announced stimulus packages, and national governments have proposed or adopted various forms of economic relief, there can be no assurance that such monetary and fiscal policy measures will have the intended effects or that a global economic downturn will not occur or market volatilities will not persist. See also the section entitled “*Risk Factors – Risks relating to our business and industry – Our Group is subject to risks related to the outbreak of communicable diseases including, in particular, the ongoing COVID-19 pandemic.*” of this Introductory Document for further information.

Uncertainty in the global economic recovery has escalated fears and increased uncertainties in the global markets. It is difficult to predict how long such a situation will last and how our markets and businesses may be affected. Accordingly, these situations could potentially present risks to our Group, including an increase in interest expenses on our bank borrowings or a reduction of the amount of banking facilities currently available to us, thereby materially and adversely affecting our business operations and future financial performance. Given the uncertainties as to the future economic outlook, we cannot give any assurance that we will be able to maintain or continue to grow our revenue and profits, or that we will be able to react promptly to any change in economic conditions. In the event that we fail to react promptly to the changing economic conditions, our performance and profitability could be adversely affected.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in economic, social and political policies of the PRC government could have a material adverse effect on overall economic growth in the PRC, which could materially and adversely affect our business.

Our business in the PRC is carried out through our PRC subsidiaries. For FY2019, FY2020, FY2021 and 6M2022, 74.8%, 72.0%, 69.2% and 71.0% of our Group’s total revenue was derived from the PRC market respectively. Our Directors anticipate that the PRC will continue to be a significant production and sales base of our Group in the near future. Our Group is therefore influenced by economic, social, political and legal developments in the PRC, including the level of development, growth rate, foreign exchange controls, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Economic reforms that begun in the late 1970s have resulted in significant economic growth. However, economic reform policies or measures in the PRC may constantly evolve. The PRC economy differs from the economies of most developed countries in many respects, including with respect to the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 40 years, growth has been uneven across different regions and periods and among various economic sectors.

The PRC government exercises significant control over the PRC’s economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has implemented a number of measures, such as increasing the PBOC’s statutory deposit reserve ratio and imposing commercial bank lending guidelines, which have had the effect of slowing the growth of credit availability. Since 2008, however, in response to the global financial crisis, the PRC government has loosened such requirements and adopted various measures aimed at expanding credit and stimulating economic

growth, such as decreasing the statutory deposit reserve ratio of the PBOC and lowering benchmark interest rates. Particularly, any changes in the policies implemented by the PRC government which result in currency and interest rate fluctuations, capital restrictions, and changes in taxes detrimental to our business may materially and adversely affect our business, financial condition, results of operations and prospects.

Although the PRC economy has grown significantly in the past four (4) decades, that growth may not continue and any slowdown may have a negative effect on our business and operations. Any adverse changes in economic conditions in the PRC, the policies of the PRC government or PRC laws and regulations could have a material and adverse effect on the overall economic growth of the PRC. Such developments could lead to reduction in demand for our products and our business, financial condition, results of operations and prospects may be materially and adversely affected.

The restrictions on the PRC foreign exchange or outbound capital flows may affect our ability to receive dividends and other payments from our PRC subsidiaries.

In the PRC, FIEs are subject to the PRC rules and regulations on currency conversion, including the Regulation for Foreign Exchange Controls in the PRC, which is regulated by the SAFE. The ability of our PRC subsidiaries to pay dividends or to repatriate profits to us may be affected by changes in the PRC foreign exchange control. The PRC government imposes controls on the convertibility between the RMB and foreign currencies and, in certain cases, the remittance of currency out of China. We receive a large part of our revenues in RMB. Our income at the holding company level may be primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our Shares. Please refer to the section entitled “*Exchange Rates and Exchange Controls – Exchange Controls*” of this Introductory Document for further details.

Our PRC-incorporated subsidiaries may incur liability pursuant to unauthorised actions by their legal representatives.

Our PRC-incorporated subsidiaries are required by law to each appoint a legal representative to be the person responsible to perform the duties and powers on their behalf. The legal representative is authorised to perform all acts regarding the general administration of the PRC subsidiaries and can also execute powers of attorney and execute any legal transaction that is within the nature and the scope of business of the company. In the event that the legal representative of our PRC-incorporated subsidiaries performs any unauthorised actions in contravention of the law and/or their contractual obligations purportedly on behalf of the respective subsidiary, there is a risk that our Group and/or our PRC-incorporated subsidiaries may be held liable for such acts. While measures and controls have been implemented in order to mitigate such a risk, there is no assurance that the legal representatives will adhere to such measures and control procedures. Further details on the measures that have been taken in relation to the current legal representatives of our PRC subsidiaries are set out in the section entitled “*Management and Corporate Governance – Legal Representatives*” of this Introductory

Document. In the event that the legal representatives incur liability without authorisation on behalf of our Group and/or our PRC-incorporated subsidiaries, our business operations, financial position, results of operations and prospects may be materially and adversely affected.

There were no such past incidents which had a material adverse impact on our Group's business operations and/or financials, but we cannot assure you that any future occurrence of such events will not have a material adverse effect on our business, financial position and results of operations.

Increases in labour costs and enforcement of stricter labour laws and regulations in the PRC may adversely affect our business and our profitability.

The average wage in China has increased in recent years with the growth in China's overall economy. The average wage level for our employees has also increased in recent years. We expect that our labour costs, including wages and employee benefits, will increase. Unless we are able to pass on these increased labour costs to our customers, our profitability and results of operations may be materially and adversely affected.

In addition, we have been subject to stricter regulatory requirements in terms of entering into labour contracts with our employees, limitation with respect to utilisation of labour dispatching, applying for foreigner work permits, labour protection and labour condition and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labour Contract Law (《中华人民共和国劳动合同法》) and its implementation rules, employers are subject to stricter requirements in terms of signing labour contracts, minimum wages, paying remuneration, determining the term of employee's probation and unilaterally terminating labour contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labour practices, the PRC Labour Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

Companies registered and operating in China are required under the Social Insurance Law (last amended in 2018), the Regulations on the Administration of Housing Funds(《住房公积金管理条例》) (last amended in 2019) and other related laws and regulations (regulated by the social insurance is regulated by the Ministry of Human Resources and Social Security of the PRC and its local counterparts, and the housing funds is regulated by the Ministry of Housing and Urban-Rural Development of the PRC and its local housing fund administration centres) to apply for social insurance registration and housing fund deposit registration within 30 days of their establishment at the company level, regardless whether they hire employees or not. Further, they are required to apply for the social insurance registration and housing fund deposit registration for each employee within 30 days of the commencement of employment, and to pay for their employees' different social insurance including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to the extent required by law. However, certain of our PRC subsidiaries that do not hire any employees and are not a party to any employment agreement, have not applied for and obtained the registrations at the company level. We could be subject to orders by the competent labour authorities for rectification (namely, to complete the registration and open the company accounts for social insurance and housing fund within the prescribed time), and failure to comply with the orders may further subject us to administrative fines. As of the date of this Introductory Document, none of our PRC subsidiaries have been ordered by the competent labour authorities for rectification. If such PRC subsidiaries hire employees in future or are ordered to complete the registrations of social insurance and housing fund by the competent authorities, we will be required to do so within the prescribed time periods; however, there can be no assurance that we will be able to do so in accordance with applicable laws.

As of the Latest Practicable Date, there are no material non-compliances of our PRC subsidiaries with labour-related laws and regulations of the PRC including those relating to obligations to make social insurance payments and contribute to the housing provident funds. As the interpretation and implementation of labour-related laws and regulations are still evolving, our employment practices may violate labour-related laws and regulations in China, which may subject us to labour disputes or government investigations. We cannot assure you that we have complied or will be able to comply with all labour-related law and regulations including those relating to obligations to make social insurance payments and contribute to the housing provident funds. If we are deemed to have violated relevant labour laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations will be adversely affected.

China's M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations have established procedures and requirements that could make merger and acquisition activities in China by foreign investors more time-consuming and complex. For instance, the Anti-Monopoly Law of the PRC, promulgated by the SCNPC on 30 August 2007, amended on 24 June 2022, and became effective on 1 August 2022, requires when a concentration of business operators occurs by way of “merger of business operators”, “acquiring control over other business operators by virtue of acquiring their equities or assets”, “acquiring control over other business operators or possibility of exercising decisive influence on other business operators by virtue of contract or any other means”, and such concentration reaches the certain thresholds, the business operators should lodge a declaration in advance with the SAMR, otherwise the concentration may not be implemented.

In addition to the Anti-Monopoly Law of the PRC, there are other laws and regulations, such as the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《关于外国投资者并购境内企业的规定》), or the M&A Rules, adopted by six (6) PRC governmental and regulatory agencies in 2006 and amended in 2009, and the Measures for the Security Review of Foreign Investment (《外商投资安全审查办法》) (the “**Security Review Measures**”) adopted by the NDRC and the MOFCOM in 2020. These laws and regulations impose requirements in some instances that the NDRC and the MOFCOM shall be notified if the foreign investment falls within certain scopes described in such laws and regulations. Moreover, the Security Review Measures specify that foreign investment that has or possibly has an impact on state security shall be subject to security review by the NDRC and the MOFCOM. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the relevant regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from SAMR, the NDRC, and the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Pursuant to the laws and regulations of the PRC that are currently in effect as of the date of this Introductory Document, our secondary fund-raising activities on the SGX-ST in the future would not be subject to regulatory filing/approval from any PRC authorities, including the CSRC. Recently, the relevant PRC government authorities issued the Opinions on Severely Cracking Down on Illegal Securities Activities According to Law (《关于依法严厉打击证券犯罪活动的意见》) (the “**Opinions**”), which called for the enhanced administration and supervision of overseas-listed China-based companies, proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. As of the date of this Introductory Document, due to the lack of further clarifications or detailed rules and regulations, there are still uncertainties regarding the interpretation and implementation of the Opinions, we cannot guarantee that new rules or regulations promulgated in the future pursuant to the Opinions will not

impose any additional requirement on us. If it is determined that we are subject to any governmental approval, filing, other governmental authorisation or requirements for this listing or future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all, or completion could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for this listing or future capital raising activities, or a rescission of any such approval obtained by us, would subject us to sanctions by PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in the PRC, limit our ability to pay dividends outside of the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds future capital raising activities into the PRC, or take other actions that could materially and adversely affect our business, financial condition, results of operations and prospects.

On 24 December 2021, the CSRC released the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《国务院关于境内企业境外发行证券和上市的管理规定(草案征求意见稿)》) (the “**Draft Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境内企业境外发行证券和上市备案管理办法(征求意见稿)》) (the “**Draft Filing Measures**”), both of which had a comment period that expired on 23 January 2022. The Draft Administration Provisions and the Draft Filing Measures regulate the system, filing management and other related rules with respect to direct or indirect overseas issuance of listed and traded securities by “domestic enterprises”. As of the date of this Introductory Document, the Draft Administration Provisions and the Draft Filing Measures have not been promulgated, and thus, we are not required to make any filing with the CSRS for our secondary listing on the SGX-ST. However, assuming the Draft Administration Provisions and the Draft Filing Measures become effective in their current forms, any of our offerings in the future may be subject to the filing with the CSRC. If we cannot complete such filing in a timely manner, our offerings may be materially affected. See “*Regulations – M&A Rules and Overseas Listing*”.

The CSRC or other PRC regulatory authorities may also take actions requiring us, or rendering it advisable for us, to halt this Introduction or future capital raising activities before settlement and delivery of the proceeds hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities subsequently promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filings or other regulatory procedures for this Introduction or future capital raising activities, we may be unable to obtain a waiver of such approval requirements, if procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval, filing or other requirements could materially and adversely affect our business, prospects, financial condition, reputation, and the proceeds from future fund-raising activities.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

Our PRC subsidiaries are foreign-invested enterprises and are subject to laws and regulations applicable to foreign-invested enterprises as well as various PRC laws and regulations generally applicable to companies incorporated in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and may have a retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulations on wireless and information communication system solution business, and other businesses carried out by our PRC subsidiaries.

We operate in the telecommunications equipment industry. Several PRC regulatory authorities, such as the SAMR, the NDRC, the MIIT, and the MOFCOM, oversee different aspects of our operations, and we are required to obtain a wide range of government approvals, licences, permits and registrations in connection with our operations. In addition, the PRC government may enact new laws and regulations that require additional licences, permits, approvals and/or registrations for the operation of any of our existing or future business. Our Group has obtained all the requisite approvals, licences, permits and registrations and complied with the applicable laws and regulations that materially affect our operations and/or financials. However, we cannot assure you that we will be able to maintain, renew or obtain permits, licences, registrations, approvals and/or business licences covering sufficient scope of business in a timely manner or at all.

Further, the PRC government imposes foreign ownership restrictions and licensing and permit requirements for companies in the telecommunications industry. See “*Regulations – The PRC – Regulations on Foreign Investment in the PRC*” and “*Regulations on Value-added Telecommunications Services*.” These laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations and furthermore, we cannot assure you that we have complied or will be able to comply with all applicable laws at all times. Consequently, we could face the risks of being subject to governmental investigations, orders by the competent authorities for rectification, administrative penalties or other legal proceedings.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the telecommunications industry, particularly the policies relating to value-added telecommunications services, have created substantial uncertainties regarding the legality of existing and future foreign investments in the businesses and activities of internet businesses in China, including our business.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of any offshore equity offerings subsequent to the Introduction to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Under PRC laws and regulations, we are permitted to utilise the proceeds of any financing outside China to fund our PRC subsidiaries by making loans to or additional capital contributions to our PRC subsidiaries, subject to applicable government registration, statutory limitations on amount and approval requirements. For more details, see the section entitled “*Regulations – The PRC –*

Regulations on Foreign Exchange” of this Introductory Document. These PRC laws and regulations may significantly limit our ability to use Renminbi converted from the net proceeds of any financing outside China to fund the establishment of new entities in China by our PRC subsidiaries, to invest in or acquire any other PRC companies through our PRC subsidiaries, or to establish new variable interest entities in China. Moreover, we cannot assure you that we will be able to complete the necessary registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received or expect to receive from our offshore offerings and to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On 26 December 2017, the NDRC issued the Management Rules for Overseas Investment by Enterprises (《企业境外投资管理办法》) (“**Order 11**”). On 31 January 2018, the Catalog on Overseas Investment in Sensitive Industries (2018 Edition) (《境外投资敏感行业目录(2018年版)》) (the “**Sensitive Industries List**”) was promulgated and became effective on 1 March 2018. Overseas investments governed by Order 11 refers to the investment activities conducted by an enterprise located in the territory of China either directly or via an overseas enterprise under its control through making investment with assets and equities or providing financing or guarantees in order to obtain overseas ownership, control, management rights and other related interests, and overseas investment by a PRC individual through overseas enterprises under his/her control is also subject to Order 11. According to Order 11, before being conducted, any overseas investment in a sensitive industry or any direct investment by a Chinese enterprise in a non-sensitive industry but with an investment amount over US\$300 million requires approval from, or filing to be made with, the NDRC, and for those non-sensitive investments indirectly by Chinese investors (including PRC individuals) with investment amounts over US\$300 million need to be reported. Pursuant to the Sensitive Industries List, as of the date of this Introductory Document, the Group’s industry is not currently included in the catalogue of sensitive sectors. However, uncertainties remain with respect to the interpretation and application of Order 11, and we are unable to definitively determine at present whether our use of proceeds received from equity offerings conducted subsequent to the Introduction will be subject to Order 11. If we fail to obtain the approval, complete the filing or report our overseas investment with our proceeds (as the case may be) in a timely manner provided that Order 11 is applicable, we may be forced to suspend or cease our investment, or be subject to penalties or other liabilities, which could materially and adversely affect our business, financial condition and prospects.

Governmental control of currency conversion may limit our ability to utilise our revenues effectively.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into a foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies. See the section entitled “*Regulations – The PRC – Regulations on Foreign Exchange*” of this Introductory Document for further details.

Since 2016, the PRC government has tightened its foreign exchange policies again and increased scrutiny of major outbound capital movement. More restrictions and a substantial vetting process have been put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may also restrict access in the future to foreign currencies for

current account transactions, at its discretion. We receive substantially all our revenues in RMB. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders, including holders of our Shares.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.

SAFE requires PRC residents or entities to register with SAFE or its local branch in connection with their investment, establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes certain material events. See the section entitled “*Regulations – The PRC – Regulations on Foreign Exchange – General Principles of Foreign Exchange*” of this Introductory Document for further details.

If our Shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and any proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration requirements could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interests in our Company, nor can we compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, the SAFE regulations. Failure by such Shareholders or beneficial owners to comply with the SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Under the SAFE regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. See the section entitled “*Regulations – The PRC – Regulations on Employment and Social Welfare – Employee Stock Incentive Plan*” of this Introductory Document. We and our PRC resident employees who participate in our share incentive plans are subject to these regulations since we became a public company listed in Hong Kong. If we or any of these PRC resident employees fail to comply with these regulations, we or such employees may be subject to fines and other legal or administrative sanctions. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our Directors, Executive Officers and employees under PRC law.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders.

Under the EIT Law and EIT Implementation Regulations, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a PRC resident enterprise. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In 2009, the STA issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the STA’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organisations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that none of our entities outside of China is a PRC-resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body”. If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to the enterprise income tax on our global income at a rate of 25% and we will be required to comply with PRC enterprise income tax reporting obligations. In addition, we may be required to withhold a 10% withholding tax from interests or dividends which we pay to our Shareholders that are non-PRC resident enterprises, including the holders of our Shares. In addition, non-PRC resident enterprise Shareholders may be subject to PRC tax at a rate of 10% on gains realised on the sale or other disposition of our Shares, if such income is treated as sourced from within the PRC. Furthermore, if PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, interest or dividends paid to our non-PRC individual Shareholders and any gain realised on the transfer of the Shares or ordinary shares by such holders may be subject to PRC tax at a rate of 20% (which, in the case of interest or dividends, may be withheld at source by us), if such gains are deemed to be from PRC sources. These rates may be reduced by an applicable tax treaty, but it is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC, in the event that we are treated as a PRC resident enterprise.

We may not be able to obtain certain benefits under relevant tax treaties on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to our Hong Kong subsidiary, CTSL, to satisfy part of our liquidity requirements. Pursuant to the EIT Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC “resident enterprise” to a foreign enterprise investor, unless any such foreign enterprise investor’s jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the Double Taxation Avoidance Arrangement, such withholding tax rate may be lowered to 5% if

a Hong Kong resident enterprise owns no less than 25% of a PRC enterprise. Furthermore, the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under the Double Taxation Avoidance Arrangement (《非居民纳税人享受协定待遇管理办法》), which became effective in January 2020, requires non-resident enterprises to determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant reports and materials with the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See the section entitled “Taxation – PRC Taxation” of this Introductory Document. In the future, we intend to re-invest all earnings, if any, generated from our PRC subsidiaries for the operation and expansion of our business in China. Should our tax policy change to allow for offshore distribution of our earnings, we would be subject to a significant withholding tax. Our determination regarding our qualification to enjoy the preferential tax treatment could be challenged by the relevant tax authority and we may not be able to complete the necessary filings with the relevant tax authority and enjoy the preferential withholding tax rate of 5% under the arrangement with respect to dividends to be paid by our PRC subsidiaries to our Hong Kong subsidiary, CTSL.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

In February 2015, the STA issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《关于非居民企业间接转让财产企业所得税若干问题的公告》) (“**Circular 7**”). Circular 7 extends the STA’s tax jurisdiction to not only indirect transfers but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, Circular 7 provides certain criteria on the assessment of what constitutes reasonable commercial purposes and has introduced safe harbours for internal group restructurings and the purchase and sale of equity through a public securities market. Circular 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. On 17 October 2017, the STA issued Circular on Issues of Tax Withholding regarding Non-PRC Resident Enterprise Income Tax (《关于非居民企业所得税源泉扣缴有关问题的公告》) (“**STA Circular 37**”), which came into effect on 1 December 2017 and was amended on 15 June 2018. STA Circular 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

We face uncertainties on the reporting and consequences of future private equity financing transactions, share exchanges or other transactions involving the transfer of shares in our Company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-PRC resident enterprises with respect to a filing or the transferees with respect to withholding obligations, and request our PRC subsidiaries to assist in the filing. As a result, we and non-PRC resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed under Circular 7 and STA Circular 37, and may be required to expend valuable resources to comply with them or to establish that we and our non-PRC resident enterprises should not be taxed under these regulations, which may have a material adverse effect on our financial condition and results of operations.

If the custodians or authorised users of controlling non-tangible assets of our Company, including our corporate chops and seals, fail to fulfil their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected.

Under PRC laws, legal documents for corporate transactions are executed using the chops or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant branch of the SAMR.

Although we usually utilise chops or seals to enter into contracts, the designated legal representatives of each of our PRC subsidiaries have the apparent authority to enter into contracts on behalf of such entities without chops or seals and bind such entities. All designated legal representatives of our PRC subsidiaries are members of our senior management team who have signed employment agreements with our Company or our PRC subsidiaries under which they agree to abide by various duties they owe to us. In order to maintain the physical security of our chops and chops of our PRC entities, we generally store these items in secured locations accessible only by the personnel in the legal or finance department of each of our subsidiaries. Although we monitor such authorised personnel, there is no assurance that such procedures will prevent all instances of abuse or negligence. Accordingly, if any of our authorised personnel misuse or misappropriate our corporate chops or seals, we could encounter difficulties in maintaining control over the relevant entities and experience significant disruption to our operations. If a designated legal representative were to misuse his authority to gain access to the chops in a bid to obtain control over any of our PRC subsidiaries, we or our PRC subsidiaries would need to pass a new shareholders or board resolution to designate a new legal representative and we would need to take legal action to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the legal representative's fiduciary duties to us, which could involve significant time and resources and divert management attention away from our regular business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

During the Track Record Period, there were no such past incidents which had a material adverse impact on our Group's business operations and/or financials, but this is not a guarantee that there will not be such incidents in the future.

RISKS RELATING TO DOING BUSINESS IN HONG KONG

General macroeconomic conditions, particularly in Hong Kong, may materially and adversely affect our business, prospects, results of operations and financial position.

The Hong Kong financial and securities market is directly affected by, among other things, the global and local political and economic environments including macroeconomic and monetary policies, currency and interest rate fluctuations and other socio-political factors.

Any sudden downturn or sudden change in the global, regional or local economic, political, social, legal environment or government policies (for instance, Brexit, trade wars and any other local political turmoil or civil disobedience movements) which are beyond our control, may adversely affect investor sentiments in the financial market in general. Severe fluctuations in market and economic sentiments may also lead to a prolonged period of sluggish market activities which would in turn have an adverse impact on the securities market and consequently our business and operating performance may be materially and adversely affected.

Since a part of our operations is based in Hong Kong, our financial condition, results of operations and prospects are subject to the economic, political and legal developments in Hong Kong, such as risks relating to changes in Hong Kong governmental policies, changes in Hong Kong laws or regulations or their interpretation, measures that may be introduced to control inflation, such as interest rate increases, and changes in the rates or method of taxation. In addition, our Group's operations in Hong Kong are exposed to the risk of changes in laws and policies that govern operations of Hong Kong based companies. In the event that there is a downturn in the economy of Hong Kong, any recurrence of recession in Hong Kong, deflation, any changes in Hong Kong's currency policy or any changes in laws and policies governing our Group's business, our Group's business operations and hence financial results and financial position would be adversely and materially affected.

The state of political environment in Hong Kong may adversely affect our performance and financial position.

Hong Kong is a special administrative region of the PRC. The basic policies of the PRC regarding Hong Kong are embodied in the Basic Law of Hong Kong, which provides that Hong Kong shall exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication under the principle of "one country, two systems" which is guaranteed not to change for 50 years. However, we are not in any position to guarantee the implementation of the "one country, two systems" principle and the level of autonomy as currently in place. Since a part of our operations is based in Hong Kong, any changes of such political arrangements may adversely impact the stability of the economy in Hong Kong, thereby directly and adversely affecting our results of operations and financial position.

Civil unrest could have an adverse impact on our business, financial condition and results of operations.

Civil unrest, protests, demonstrations or riots causing mass disruption to businesses and transportation may affect our operations. There is no assurance that any unforeseeable interruptions to the business and operations can be mitigated or avoided. Moreover, prolonged civil unrest and an uncertain political environment, including any declaration by the Chief Executive of Hong Kong of a state of emergency pursuant to the Emergency Regulations Ordinance (Cap. 241 of the Laws of Hong Kong) which confers on the Chief Executive in Council the power to make any regulations whatsoever which he may consider desirable in the public interest on any occasion which he may consider to be an occasion of emergency or public danger. Civil unrest and instability, which are outside our control, may also dampen market confidence and sentiments. Any demonstrations, protests or riots causing disruption to the city, the authorities' reaction to any such protests or riots if they occur, the Hong Kong Chief Executive's decision to make any declaration of a state of emergency and the instability of the political and economic conditions in the region, could adversely impact our business, financial condition and results of operations and the price of our Shares traded in the secondary market.

RISKS RELATING TO AN INVESTMENT IN OUR SHARES

We are incorporated in Cayman Islands and our Shares have a primary listing on the HKSE and are subject to Cayman Islands laws and regulations, which may differ from laws and regulations applicable to Singapore-incorporated companies listed on the SGX-ST.

Our corporate affairs are governed by our Articles of Association, Cayman Islands laws and the Hong Kong Listing Rules applicable to companies listed on the HKSE. The rights of our Shareholders and the responsibilities of our Board of Directors and management under Cayman Islands law may differ from those applicable to a company incorporated in Singapore. Our public Shareholders may have difficulty in protecting their interests in connection with actions taken by our Board of Directors, management or Controlling Shareholders as compared with shareholders

of a company incorporated in Singapore. See the section entitled “*Appendix C – Comparison of Selected Cayman Islands Corporate Law Provisions and Singapore Corporate Law Provisions*” of this Introductory Document for a comparison of key differences between the Cayman Islands Companies Act and the Singapore Companies Act.

Further, the nature and content of information required to be publicly disclosed under the Hong Kong Listing Rules may differ from the public disclosures made by companies listed on the SGX-ST. These differences may include, among others, differences with respect to the disclosure of beneficial ownership of our equity securities and related party or connected transactions.

As the listing of our Shares on the SGX-ST will be a secondary listing, we are subject to primary regulatory oversight by the HKSE. Under the Listing Manual, as a foreign issuer with a secondary listing on the SGX-ST, we will generally not be required to comply with the provisions of the Listing Manual, provided that we undertake to: (a) release all information and documents in English to the SGX-ST at the same time as they are released to the home exchange; (b) inform the SGX-ST of any issue of additional securities in a class already listed on the SGX-ST and the decision of the home exchange; and (c) comply with such other Listing Rules as may be applied by the SGX-ST from time to time (whether before or after listing). For example, certain transactions we propose to enter into with parties related to our Group will not be subject to the SGX-ST’s requirements in respect of interested person transactions. Instead, such transactions will be subject to the Hong Kong Listing Rules in respect of connected transactions.

The role of the SGX-ST in performing any regulatory, disciplinary or enforcement function in respect of our Company may also be limited. Accordingly, CDP Depositors may have difficulty in protecting their interests as compared with shareholders of a company with a primary listing on the SGX-ST.

We may not be able to pay dividends.

Our ability to declare dividends in relation to our Shares will depend on our future financial performance which, in turn, depends on our ability to successfully implement our business strategies as well as financial, competitive, regulatory and general economic conditions, and other factors specific to our industry or specific projects, many of which are beyond our control. Further, our ability to pay dividends will be substantially affected by the ability of our subsidiaries and associated companies to declare and pay us dividends or other distributions. The ability of our subsidiaries and such entities to declare and pay dividends or other distributions to us will in turn be dependent on the cash income of and cash available to such subsidiary or entity and may be restricted or subject to conditions under applicable laws, regulations or contractual agreements. There are covenants under the terms of certain existing bank facilities of our subsidiaries and associated companies which may impose restrictions on the ability of these entities to distribute dividends or distributions to our Company upon the occurrence of specified events such as where interest payments under the relevant facility are in arrears.

Under the terms of certain of our existing term loan facilities, if the principal and interest are not paid to the lender on a timely basis, we may not declare and pay dividends unless consent is given by the lenders.

Exchange rate fluctuations may adversely affect the value of our Shares and any dividend distribution.

Our Shares will be quoted in HK\$ on the HKSE and in Singapore dollars on the SGX-ST. Dividends, if any, with respect to our Shares will be declared in HK\$ and converted to Singapore dollars for payment in relation to Shares which are listed on the SGX-ST. Fluctuations in the exchange rate between the HK\$ and the Singapore dollar will affect, among other things, the value of the dividends received in Singapore dollars by investors of our Shares listed on the SGX-ST.

See the section entitled “*Exchange Rates and Exchange Controls – Exchange Rates*” of this Introductory Document for further information regarding fluctuations in the value of the HK\$ relative to the Singapore dollar.

The Introduction may not result in an active or liquid market on the SGX-ST for our Shares.

As of the date of this Introductory Document, there is no public market for our Shares in Singapore. We have received an eligibility-to-list letter from the SGX-ST to have our Introduction Shares listed on the SGX-ST. The listing and quotation of our Shares on the SGX-ST does not guarantee that a trading market for our Shares on the SGX-ST will develop or the liquidity of that market for our Shares. Although we currently intend that our Shares will remain listed on the HKSE and the SGX-ST, there is no assurance of the continued listing of our Shares on the SGX-ST.

Once our Shares are tradable on the SGX-ST, the trading prices of our Shares on the HKSE and the SGX-ST respectively may differ significantly due not only to currency fluctuations but also due to differences in market liquidity of our Shares, trading participants and investor bases, exchange trading systems and other factors outside our control. There is no guarantee that the trading prices of our Shares on the SGX-ST will be equivalent to the trading prices of our Shares on the HKSE.

Our post-Introduction Share price may not be reflective of our value and our Share price may be volatile in the future.

The listing will be by way of an Introduction. Unlike a listing undertaken with an initial public offering, there will not be a price-discovery process such as book building undertaken prior to and in connection with the Introduction. As such, the price of the Shares immediately post-Introduction may not reflect an appropriate value of our Company.

The price of the Shares may fluctuate widely, depending on various factors, including:

- changes in market valuations and share prices of companies with similar businesses to our Group that may be listed in Singapore and Hong Kong;
- announcements of significant acquisitions, strategic alliances or joint ventures;
- fluctuations in stock market prices and trading volume;
- involvement in material litigation;
- addition or departure of key personnel;
- success or failure of management in implementing business and growth strategies;
- variations in operating results;
- changes in securities analysts’ recommendations, perceptions or estimates of our Group’s financial performance;
- general changes in rules/regulations with regard to the telecommunications equipment industry that our Group operates in, including those that affect the demand for our Group’s products and services; and
- changes in conditions affecting the telecommunications equipment industry in which our Group operates, the general economic conditions or stock market sentiments or other events or factors.

You may experience further dilution in the value of the Shares.

Our Company may need to raise additional funds in the future and if such additional funds are raised through the issuance by our Company of new Shares other than on a *pro rata* basis to then existing Shareholders, the percentage ownership of then existing Shareholders may be reduced and then existing Shareholders may experience dilution in the value of their Shares. If we fail to utilise the additional funds to generate a commensurate increase in earnings, this will also lead to a dilution in our earnings per Share and could lead to a decline in the Share price.

Our Controlling Shareholder will be able to exercise substantial control over our Company and may have interests that are different from those of our other Shareholders.

As at the Latest Practicable Date, our Chairman and Executive Director, Mr. Fok Tung Ling, has an interest in 688,479,468 Shares which represent approximately 24.76% of the issued Shares. Please refer to the section entitled “*Share Ownership – Directors, Chief Executive and Substantial Shareholders’ Interests and Short Positions in our Shares and Underlying Shares of our Company*” of this Introductory Document for further details. By virtue of his shareholding in our Company, our Controlling Shareholder has the ability to indirectly exercise control over our Company and our affairs and business, including the election of Directors, the timing and payment of dividends, and the approval of other actions requiring the simple majority approval of our Shareholders. Control of a majority of the Shares by our Controlling Shareholder could delay, defer or prevent a future take-over or a change in control of our Company and could make some transactions more difficult or impossible to complete without the support of our Controlling Shareholder. The interests of our Controlling Shareholder may also differ from or conflict with the interests of other Shareholders.

There is no assurance that we will remain listed on either the HKSE or the SGX-ST.

While our Shares are currently listed on the HKSE and will, following the Introduction, be listed on the SGX-ST, there is no assurance that they will continue to be so listed on both or either exchange in the future. We may not be able to continue to satisfy the listing requirements under the regulations of the HKSE or other relevant rules, regulations or laws in Cayman Islands or Singapore. In addition, our eligibility-to-list on the SGX-ST is conditional upon, among others, the maintenance of our primary listing on the HKSE. In the event that our Shares cease to be listed on the HKSE, there is no assurance that our Shares will remain listed on the SGX-ST. If our Shares are suspended from quotation, removed from trading or otherwise cease to be traded on the HKSE or the SGX-ST, our Shareholders and CDP Depositors (as the case may be) will not be able to trade our Shares on the HKSE and/or the SGX-ST. Further, there is no assurance that any of such Shareholders or CDP Depositors will be entitled to compensation or an exit offer, or that the terms of any such compensation or exit offer will be satisfactory to them. If our Shares cease to be listed on the SGX-ST and in the event there is no exit offer or CDP Depositors choose not to accept the exit offer, such CDP Depositors may have to transfer their Shares to the HKSE for disposal or trading. See the section entitled “*Clearance and Settlement*” of this Introductory Document for further details regarding transfers of our Shares between the SGX-ST and the HKSE.

The different characteristics of the capital markets in Singapore and Hong Kong may negatively affect the trading prices of our Shares.

Upon the Introduction, we will be subject to Singapore and Hong Kong listing and regulatory requirements concurrently. The SGX-ST and HKSE have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Shares may not be the same, even allowing for currency differences. Fluctuations in the price of our Shares due to circumstances peculiar to the Hong

Kong capital market could materially and adversely affect the price of our Shares, or *vice versa*. Certain events having significant negative impact specifically on the Hong Kong capital markets may result in a decline in the trading price of our Shares notwithstanding that such event may not impact the trading prices of securities listed in Singapore generally or to the same extent, or *vice versa*. Because of the different characteristics of Singapore and Hong Kong capital markets, the historical market prices of our Shares may not be indicative of the trading performance of our Shares after the Introduction.

We will not be subject to full regulatory oversight from the SGX-ST after the Introduction and certain rules from the SGX-ST Listing Manual will not apply to us.

As our primary listing is on the HKSE and the listing of our Shares on the SGX-ST is a secondary listing, the HKSE will have primary regulatory oversight over our Company. Under the Listing Manual, a foreign issuer having a secondary listing on the SGX-ST, as is our case, need not comply with the Listing Manual, provided that it undertakes to:

- release all information and documents in English to the SGX-ST at the same time as they are released to the HKSE;
- inform the SGX-ST of any issue of additional securities in a class already listed on the SGX-ST and the decision of the HKSE; and
- to comply with such other listing rules as may be applied by the SGX-ST from time to time.

Whilst the SGX-ST has imposed certain conditions on us in connection with the listing of our Introduction Shares on the SGX-ST as stated in the section entitled “*Our Listing on the SGX-ST*” of this Introductory Document, our compliance with such conditions will nonetheless be less than that required of a company with a primary listing on the SGX-ST.

For example, we are also not subject to the continuing disclosure obligations under Chapters 9, 10 and 13 of the Listing Manual but will be subject to the relevant laws and regulations governing listed corporations on the HKSE. As we are not required to comply with Chapter 13 of the Listing Manual, CDP Depositors will not be entitled to an exit offer under Rule 1309(1) of the Listing Manual in the event of a delisting from the SGX-ST only. An announcement will be made to inform CDP Depositors in the event of a delisting from the SGX-ST.

CDP Depositors may be diluted as they may not be able to participate in any additional equity fundraising or rights issue.

We may in the future require additional equity funding after the Introduction and our Shareholders and CDP Depositors may face dilution of their shareholdings should we issue Shares to obtain such equity funding. Furthermore, if we were to conduct a rights issue in Hong Kong only, CDP Depositors may not be able to participate in such a rights issue. Compliance with securities laws or other regulatory provisions in Singapore may prevent us from offering such rights to CDP Depositors without us incurring substantial additional costs (over and above any requirements we must comply with in Hong Kong) involved in the offering of such rights to CDP Depositors, including having to lodge an offer information statement with the MAS. If that is the case and Shares to be issued pursuant to a rights issue in Hong Kong only were offered to our Shareholders at a discount, CDP Depositors will face dilution of their beneficial shareholdings. See the section entitled “*Clearance and Settlement – Movement of Shares between Hong Kong and Singapore – Transfer of Shares from Singapore to Hong Kong*” of this Introductory Document for more information for the mechanism for conversion and transfer of Shares trading on the SGX-ST to Shares for trading on the HKSE to be eligible to participate in corporate actions offered to our Shareholders.

There are exchange rate risks in trading in our Shares and dividends distributed by us may also be affected.

Investors should note that prior to our Company conducting fundraising through an offering of Shares in Singapore in the future (with such Shares to be held through CDP), the Shares listed on the HKSE will need to be cancelled and withdrawn for delivery of Shares to enable transfer to the CDP for trading of our Shares on the SGX-ST. However, once our Company conducts fundraising through an offering of Shares in Singapore in the future (with such Shares to be held through CDP), investors will be able to trade our Shares on the SGX-ST and, subject to compliance with applicable laws, rules and regulations, may be able to convert the Shares for trading on the HKSE. See the section entitled “*Clearance and Settlement*” of this Introductory Document for more information. Transactions in our Shares on the HKSE and transactions in our Shares on the SGX-ST will be settled in Hong Kong dollars and Singapore dollars respectively. However, should you sell our Shares on the HKSE or the SGX-ST, and you decide to convert the proceeds from the sale into Singapore dollars, you will be subject to the prevailing exchange rate between the Singapore dollars and Hong Kong dollars at the time you convert the proceeds from your sale into Singapore dollars. Any fluctuation in exchange rates of this nature may have an impact on the proceeds which you receive from the sale of your Shares.

We will declare and pay dividends in Hong Kong dollars and CDP will make the necessary arrangements for onward distribution to CDP Depositors whose Shares are held through CDP. All CDP Depositors will receive the distributions in Singapore dollars. Any fluctuation in exchange rates should you decide to convert the distributions into Singapore dollars may have an impact on distribution which you receive from the dividends we have declared. See the sections entitled “*Exchange Rates and Exchange Controls*” and “*Dividend Policy*” of this Introductory Document for more information.

DIVIDEND POLICY

Statements contained in this section that are not historical facts are forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those which may be forecasted and projected. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by us, the Issue Manager, or any other person. Prospective investors are cautioned not to place undue reliance on these forward-looking statements that speak only as at the date hereof. See the section entitled “Notice to Investors – Forward-Looking Statements” of this Introductory Document.

Past Dividends

The following table shows the amount of cash dividends paid by our Company and each of our Principal Subsidiary (except where dividends were paid to our Company) for each of FY2019, FY2020 and FY2021 and for the period from 1 January 2022 to the Latest Practicable Date:

	FY2019		FY2020		FY2021		1 January 2022 to the Latest Practicable Date	
	Dividend (per Share)	Total Dividend ('000,000)	Dividend (per Share)	Total Dividend ('000,000)	Dividend (per Share)	Total Dividend ('000,000)	Dividend (per Share)	Total Dividend ('000,000)
Our Company	HK\$0.01	HK\$25	HK\$0.019	HK\$52	Nil	Nil	HK\$0.01	HK\$28
WaveLab Holdings Limited	Nil	Nil	Nil	Nil	Nil	Nil	US\$5,210	US\$2.87

Dividend Policy

Our Dividend Policy was adopted by our Board on 31 December 2018. Pursuant to the Dividend Policy, our Company may consider declaring and paying dividends to our Shareholders, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. When deciding whether to propose a dividend and determining the dividend amount, our Board shall take into account, among other things, the financial performance and condition, liquidity position, working capital requirements and future expansion plans of our Group, and any other factors which our Board deems appropriate and/or relevant. The payment of dividend is also subject to any requirements of the Cayman Islands Companies Act, regulations under the laws of Cayman Islands and the Memorandum and Articles of Association of our Company.

Our Board will continue to review the Dividend Policy from time to time. There is no assurance that dividends will be paid in any particular amount for any given period.

Shareholders whose Shares are held through CDP will receive their dividends through CDP in Singapore dollars. We will make the necessary arrangements to convert the dividends in Hong Kong dollars into the Singapore dollar equivalent at the prevailing exchange rate obtained by us on the relevant date for onward distribution to CDP and CDP's onward distribution to entitled Shareholders. Neither our Company nor CDP will be liable for any loss whatsoever arising from the conversion of the dividend entitlement of Shareholders holding their Shares through CDP from the Hong Kong dollar into the Singapore dollar equivalent.

You should note that the foregoing statements are merely statements of our present intention and shall not constitute legally binding statements in respect of our Company's future dividends, which may be subject to modification (including reduction or non-declaration thereof) in the sole and absolute discretion of our Board.

No inference should or can be made from any of the foregoing statements as to our Company's actual future profitability or our Company's ability to pay dividends in any of the periods discussed.

CAPITALISATION AND INDEBTEDNESS

The information in this section should be read in conjunction with the sections in this Introductory Document entitled “Summary – Selected Consolidated Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, as well as “Appendix B – Independent Review Report and Unaudited Interim Condensed Consolidated Financial Statements of Comba Telecom Systems Holdings Limited and its Subsidiaries as at and for the Six (6) Months Ended 30 June 2022”.

The table below sets out the cash and cash equivalents as well as the capitalisation and indebtedness of our Group as at 30 June 2022 based on our unaudited management accounts.

	Unaudited as at 30 June 2022
	(HK\$ million)
Cash and cash equivalents	1,699.0
Current indebtedness	
Secured	
Guaranteed	–
Non-guaranteed	–
Unsecured	
Guaranteed	851.8
Non-guaranteed	–
Non-current indebtedness	
Secured	
Guaranteed	760.0
Non-guaranteed	–
Unsecured	
Guaranteed	–
Non-guaranteed	–
Total indebtedness	1,611.8
Total shareholders’ equity	3,784.8
Total capitalisation and indebtedness	5,396.6

Contingent Liabilities

As at the Latest Practicable Date, we do not have any material contingent liabilities. However, for completeness, please refer to Note 29 of the section entitled “Appendix B – Independent Review Report and Unaudited Interim Condensed Consolidated Financial Statements of Comba Telecom Systems Holdings Limited and its Subsidiaries as at and for the Six Months Ended 30 June 2022” of this Introductory Document relating to operational guarantees that have been provided by our Group.

As at 30 June 2022, our Group had contingent liabilities of HK\$283,080,000 (31 December 2021: HK\$276,836,000), which mainly included guarantees given to banks in respect of performance bonds. The guarantees referred here are deposits paid mainly by PRC and Hong Kong subsidiaries of our Group to banks for the issuance of performance bonds. None of the Directors have provided personal guarantees.

Not all projects of our Group or contracts to be entered into by our Group will require performance bonds. Whether performance bonds are issued or required and the amount of such performance bonds are subject to the needs and/or requirements of our customers and negotiation of terms of such performance bonds between the customers and our Group. The amount of such performance bonds is usually around 10% of the contract sum or a fixed amount required by our customers. The validity of the performance bond would cover the term of the contract and will be discharged in accordance with the terms and conditions of the relevant contracts.

MARKET PRICE INFORMATION

The following table sets out certain historical pricing and trading volume information of our Shares on the HKSE. No inference should or can be made from any of the information below as to the actual price or movement of our Shares for any other periods.

Our Shares are currently listed on the HKSE. The following table sets out certain pricing and trading volume information for our Shares on the HKSE for FY2019, FY2020, FY2021 and for the last six (6) months prior to the Latest Practicable Date. No inference should or can be made from any of the information below as to our actual share price performance or movement of our Shares. There can be no assurance that the market price of our Shares following the close of the Introduction will attain a price which is higher or lower than the range of prices set forth below or any price.

Period	High (HK\$) ⁽¹⁾⁽⁴⁾	Low (HK\$) ⁽¹⁾⁽⁴⁾	Average Daily Trading Volume (Number of Shares) ⁽²⁾⁽⁴⁾
FY2019 ⁽³⁾	2.33	1.30	23,135,433
FY2020 ⁽³⁾	3.75	2.18	37,713,220
FY2021 ⁽³⁾	2.68	1.70	8,047,603
January 2022	1.92	1.78	2,917,326
February 2022	2.07	1.83	5,213,247
March 2022	1.54	1.22	13,712,945
April 2022	1.39	1.25	2,297,459
May 2022	1.31	1.23	2,176,274
June 2022	1.40	1.23	4,594,077
July 2022	1.51	1.32	4,082,305
August 2022	1.49	1.36	2,316,225
September 2022	1.54	1.23	3,033,326
October 2022	1.29	1.06	2,974,416
November 2022	1.39	1.13	3,488,732
December 2022 (through to the Latest Practicable Date)	1.46	1.40	2,898,396

Notes:

- (1) Based on daily closing prices.
- (2) The average daily trading volume is computed based on the total volume of Shares traded on the HKSE during the relevant periods, divided by the number of days when the HKSE was open for trading (excluding days with full day trading halts).
- (3) Information pertaining to FY2019, FY2020 and FY2021 are taken from 1 January 2019 to 31 December 2019, 1 January 2020 to 31 December 2020 and 1 January 2021 to 31 December 2021, respectively.
- (4) Source: Bloomberg L.P. Bloomberg L.P. has not provided its consent to the inclusion of the information extracted from its database, and is therefore not liable for such information. While our Company and the Issue Manager have taken reasonable actions to ensure that the information from Bloomberg L.P.'s database has been reproduced in its proper form and context, and that such information is extracted accurately and fairly in this Introductory Document, neither our Company, our Directors, the Issue Manager nor any other party has conducted an independent review of the information contained in that database or verified the accuracy of the contents of the relevant information.

The following table sets out the highest and lowest market prices of our Shares on the HKSE for each financial quarter of the two (2) most recently completed financial years and subsequent quarters before the date of this Introductory Document.

Period	High (HK\$)⁽¹⁾⁽²⁾	Low (HK\$)⁽¹⁾⁽²⁾
Quarter ended 31 March 2020	3.64	2.18
Quarter ended 30 June 2020	3.54	3.03
Quarter ended 30 September 2020	3.75	2.60
Quarter ended 31 December 2020	2.90	2.22
Quarter ended 31 March 2021	2.68	1.99
Quarter ended 30 June 2021	2.12	1.79
Quarter ended 30 September 2021	2.15	1.70
Quarter ended 31 December 2021	2.28	1.70
Quarter ended 31 March 2022	2.07	1.22
Quarter ended 30 June 2022	1.40	1.23
Quarter ended 30 September 2022	1.54	1.23

Notes:

- (1) Source: Bloomberg L.P. Bloomberg L.P. has not provided its consent to the inclusion of the information extracted from its database, and is therefore not liable for such information. While our Company and the Issue Manager have taken reasonable actions to ensure that the information from Bloomberg L.P.'s database has been reproduced in its proper form and context, and that such information is extracted accurately and fairly in this Introductory Document, neither our Company, our Directors, the Issue Manager nor any other party has conducted an independent review of the information contained in that database or verified the accuracy of the contents of the relevant information.
- (2) The high and low amounts were based on the highest and lowest closing prices, respectively, for our Shares for the particular period.

The closing price of our Shares on the HKSE as at the Latest Practicable Date was HK\$1.42. The closing price of our Shares on the HKSE as at date of the last trading day before the date of Introductory Document, being the last trading day before the date of this Introductory Document, was HK\$1.34.

There has been no significant trading suspension that has occurred on the HKSE during the last (3) years immediately preceding the Latest Practicable Date. Our Shares are regularly traded on the HKSE.

EXCHANGE RATES AND EXCHANGE CONTROLS

EXCHANGE RATES

Exchange rates between HKD and SGD

The following table sets out, for the periods indicated, certain information on the exchange rates between the Hong Kong dollar and the Singapore dollar (in Hong Kong dollar per Singapore dollar), as quoted by Bloomberg L.P. and rounded to two (2) decimal places. These exchange rates have been presented solely for information only. We make no representation that the Hong Kong dollar or Singapore dollar amounts set out below and referred to elsewhere in this Introductory Document could have been or could be converted into any of the respective other currencies at the rates indicated or at any other rate or at all.

Period	Closing Exchange Rates Hong Kong dollar per Singapore dollar ⁽¹⁾			
	High ⁽²⁾	Low ⁽²⁾	Average ⁽³⁾	Period End
FY2019 ⁽⁴⁾	5.83	5.64	5.75	5.79
FY2020 ⁽⁴⁾	5.87	5.31	5.63	5.87
FY2021 ⁽⁴⁾	5.88	5.68	5.79	5.78
6M2022	5.81	5.62	5.73	5.65
January 2022	5.79	5.73	5.77	5.77
February 2022	5.81	5.76	5.79	5.77
March 2022	5.79	5.72	5.76	5.78
April 2022	5.78	5.66	5.74	5.67
May 2022	5.74	5.62	5.68	5.73
June 2022	5.73	5.63	5.67	5.65
July 2022	5.69	5.58	5.63	5.69
August 2022	5.73	5.61	5.67	5.62
September 2022	5.62	5.46	5.55	5.47
October 2022	5.58	5.46	5.51	5.54
November 2022	5.74	5.52	5.65	5.74
1 December 2022 to the Latest Practicable Date (both inclusive)	5.77	5.71	5.74	5.73

Notes:

- (1) Source: Bloomberg L.P. Bloomberg L.P. has not provided its consent to the inclusion of the exchange rate information cited to it in this section and is therefore not liable for such information. While our Company and the Issue Manager have taken reasonable actions to ensure that such information has been reproduced in its proper form and context and that such information is extracted accurately and fairly in this Introductory Document, neither our Company, our Directors, the Issue Manager nor any other party has conducted an independent review of such information or verified the accuracy of the contents of such information.
- (2) The high and low amounts were determined using the closing exchange rates at the end of each day during the period indicated.
- (3) The yearly average rate was determined using the closing exchange rates on the last day of each month during the period indicated. The monthly or periodic average rate was determined using the closing exchange rates at the end of each day during the period indicated.
- (4) Information pertaining to FY2019, FY2020 and FY2021 is taken from 1 January 2019 to 31 December 2019, 1 January 2020 to 31 December 2020 and 1 January 2021 to 31 December 2021, respectively.

On the Latest Practicable Date, the closing exchange rate between the Hong Kong dollar and the Singapore dollar (in Hong Kong dollar per Singapore dollar) was HK\$5.73 : S\$1.00.

Exchange rates between RMB and SGD

The following table sets out, for the periods indicated, certain information on the exchange rates between the RMB and the Singapore dollar (in RMB per Singapore dollar), as quoted by Bloomberg L.P. and rounded to two (2) decimal places. These exchange rates have been presented solely for information only. We make no representation that the RMB or Singapore dollar amounts set out below and referred to elsewhere in this Introductory Document could have been or could be converted into any of the respective other currencies at the rates indicated or at any other rate or at all.

Period	Closing Exchange Rates RMB per Singapore dollar ⁽¹⁾			
	High ⁽²⁾	Low ⁽²⁾	Average ⁽³⁾	Period End
FY2019 ⁽⁴⁾	5.20	4.93	5.06	5.17
FY2020 ⁽⁴⁾	5.18	4.86	5.00	4.94
FY2021 ⁽⁴⁾	4.94	4.65	4.79	4.71
6M2022	4.91	4.63	4.75	4.82
January 2022	4.72	4.69	4.71	4.71
February 2022	4.74	4.66	4.71	4.66
March 2022	4.69	4.63	4.67	4.68
April 2022	4.78	4.67	4.71	4.78
May 2022	4.91	4.77	4.85	4.87
June 2022	4.86	4.81	4.84	4.82
July 2022	4.89	4.77	4.83	4.89
August 2022	4.95	4.89	4.91	4.93
September 2022	5.02	4.92	4.96	4.96
October 2022	5.16	4.97	5.05	5.16
November 2022	5.23	5.11	5.18	5.21
1 December 2022 to the Latest Practicable Date (both inclusive)	5.22	5.12	5.16	5.13

Notes:

- (1) Source: Bloomberg L.P. Bloomberg L.P. has not provided its consent to the inclusion of the exchange rate information cited to it in this section and is therefore not liable for such information. While our Company and the Issue Manager have taken reasonable actions to ensure that such information has been reproduced in its proper form and context and that such information is extracted accurately and fairly in this Introductory Document, neither our Company, our Directors, the Issue Manager nor any other party has conducted an independent review of such information or verified the accuracy of the contents of such information.
- (2) The high and low amounts were determined using the closing exchange rates at the end of each day during the period indicated.
- (3) The yearly average rate was determined using the closing exchange rates on the last day of each month during the period indicated. The monthly or periodic average rate was determined using the closing exchange rates at the end of each day during the period indicated.
- (4) Information pertaining to FY2019, FY2020 and FY2021 is taken from 1 January 2019 to 31 December 2019, 1 January 2020 to 31 December 2020 and 1 January 2021 to 31 December 2021, respectively.

As at the Latest Practicable Date, the closing exchange rate between the RMB and the Singapore dollar (in RMB per Singapore dollar) was RMB5.13 : S\$1.00.

EXCHANGE CONTROLS

Hong Kong

There are currently no foreign exchange control restrictions or similar laws, decrees, regulatory or other requirements in Hong Kong that may restrict the following:

- (a) the ability to transfer funds by or to our Company in the form of repatriation of capital and remittance of profits;
- (b) the availability of cash and cash equivalents for use by our Company; and
- (c) the remittance of dividends, interest or other payments to holders of our Shares.

The PRC

The principal regulations governing foreign currency exchange in the PRC are the Administrative Regulations on Foreign Exchange of the PRC (《中华人民共和国外汇管理条例》). Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, may be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of foreign currency denominated loans or foreign currency is to be remitted into the PRC under the capital account, such as a capital increase or foreign currency loans to our PRC subsidiaries. In June 2016, SAFE promulgated SAFE Circular 16, which unifies the Discretionary Foreign Exchange Settlement for all the domestic institutions. The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital under the capital account which has been confirmed by the relevant policies subject to the discretionary foreign exchange settlement (including foreign exchange capital, foreign debts and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital is temporarily determined as 100%. Furthermore, the SAFE Circular 16 stipulates that the use of foreign exchange incomes of capital accounts by FIEs shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in RMB obtained by FIEs from foreign exchange settlement shall not be used for the following purposes: (a) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (b) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products, unless otherwise provided by relevant laws and regulations; (c) used for granting loans to non-connected enterprises, unless otherwise explicitly permitted by its business scope; and (d) used for the construction or purchase of real estate that is not for self-use (except for real estate enterprises). In October 2019, the SAFE promulgated the SAFE Circular 28, which allows non-investment FIEs to use their capital funds to make equity investments in the PRC, provided that such investments do not violate the special administrative measures for access to foreign investments and the target investment projects are genuine and in compliance with laws.

According to the Circular of the State Administration of Foreign Exchange on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (《国家外汇管理局关于优化外汇管理支持涉外业务发展的通知》) promulgated in April 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be

promoted nationwide. Enterprises satisfying the prescribed requirements are allowed to use receipts under the capital accounts such as capital funds, foreign debts, and overseas listings for domestic payment without providing banks with authenticity certification materials on a transaction-by-transaction basis in advance, under the premise that funds are used in a truthful and compliant manner and comply with the existing provisions on the administration of use of receipts under capital accounts.

Singapore

There are no exchange control restrictions in effect in Singapore.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of our financial condition and results of operations in conjunction with the sections entitled "Risk Factors" and "Summary – Selected Consolidated Financial Information" of this Introductory Document and our consolidated financial statements and the related notes included elsewhere in this Introductory Document. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described under the section entitled "Risk Factors" and elsewhere in this Introductory Document. See the section entitled "Notice to Investors – Forward-Looking Statements" of this Introductory Document. Our consolidated financial statements have been prepared in accordance with the HKFRS.

OVERVIEW

Our Group is a global leading wireless solutions provider with its own R&D facilities, manufacturing base, and sales and service teams. Leading through innovative technology, we offer a comprehensive suite of products and services including base station antennas and subsystems, network products and services, and wireless transmission products to our global customers.

Our core product portfolio includes base station antennas and subsystems and network products (DAS, small cells, Repeater, RRU, etc.), and we offer turnkey solutions for indoor and outdoor 2G/3G/4G/5G/Wi-Fi network to our global customers. Our range of services include network consultation, design, optimisation and commissioning, which enables us to supply our customers with end-to-end wireless solutions in high capacity and coverage requirement locations, including shopping malls, airports, sports stadiums, public service buildings, and telecom operator headquarters. We strive to develop innovative technology products for mobile operators and enterprises to enhance and extend their business value. In addition to our core business of supplying operators and industries with ubiquitous and high-capacity wireless networks, we are constantly reinventing ourselves and bringing new value-added solutions for the smart city and enterprises IoT applications, among others. We also offer ScanViS computer vision AI solutions to support the development of smart cities and AGV intelligent vehicles and solutions to support factory intelligent chemical applications.

Please refer to the section entitled "*Business*" of this Introductory Document for more details on our Group's business.

Revenue

Our Group's operations are mainly located in the PRC and our business is organised into two (2) business segments, namely, the provision of wireless telecommunications network system equipment and services, and operator telecommunication services, as described below:

(i) Wireless telecommunications network system equipment and services

This comprises the research and development, production, sales and marketing of wireless coverage products, and the provision of related engineering services. This business segment comprises the base station antennas and subsystems business sub-segment and the services sub-segment.

(ii) Operator telecommunication services

This comprises the provision of operator telecommunication services and related value-added services by our subsidiary in Laos, ETL. Our Group has a shareholding ratio of 51% in ETL. The acquisition of ETL by our Group was completed in 2017.

ETL's principal business includes the provision of:

- mobile communication services;
- fixed line communication services;
- Wi-Fi/internet services; and
- other types of telecommunication value-added services.

From 2018 to 2019, along with the construction of new base stations, ETL had developed 2G and 3G networks to 4G networks.

In 2020, ETL finalised its 5G network strategic plan and officially obtained the 5G trial commercial license issued by the Lao Ministry of Posts and Telecommunications in the same year, marking the beginning of the 5G era in Laos.

The financials of ETL are set out in the following table:

	FY2019	FY2020	FY2021	6M2022
	KIP' million	KIP' million	KIP' million	KIP' million
Revenue	173,183	195,191	264,239	142,274
Percentage Growth	(18%)	13%	35%	14%

In terms of future plans, ETL intends to:

- continue working on designing and optimising its products based on customer needs and intends to launch more innovative products in due course;
- target younger customers and exploring potential market segments continually; and
- focus on overall 4G/5G network access and value enhancement, and to increase market share through fixed-mobile cross-bundling.

Our revenue amounted to HK\$5,779.9 million, HK\$5,057.2 million, HK\$5,869.7 million, HK\$2,418.1 million and HK\$3,042.5 million in FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Our revenue by business segments and geographical segments is as follows:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Wireless telecommunications network system equipment and services	5,624,052	97.3	4,890,140	96.7	5,658,244	96.4	2,315,146	95.7	2,946,985	96.9
Operator telecommunication services	155,864	2.7	167,100	3.3	211,422	3.6	102,982	4.3	95,533	3.1
Total	5,779,916	100.0	5,057,240	100.0	5,869,666	100.0	2,418,128	100.0	3,042,518	100.0

	FY2019		FY2020		FY2021		6M2021		6M2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
The PRC	4,320,503	74.8	3,642,695	72.0	4,061,715	69.2	1,573,719	65.1	2,159,485	71.0
Other countries/areas in Asia Pacific	656,860	11.3	705,940	13.9	892,888	15.2	423,484	17.5	349,593	11.4
Americas	493,159	8.5	393,318	7.8	593,214	10.1	282,501	11.7	263,708	8.7
European Union	200,436	3.5	282,179	5.6	263,916	4.5	111,814	4.6	211,531	7.0
Middle East	100,061	1.7	19,406	0.4	28,130	0.5	11,176	0.5	28,410	0.9
Other countries	8,897	0.2	13,702	0.3	29,803	0.5	15,434	0.6	29,791	1.0
	5,779,916	100.0	5,057,240	100.0	5,869,666	100.0	2,418,128	100.0	3,042,518	100.0

Please refer to the section entitled “*Risk Factors*” of this Introductory Document for factors which may affect our revenue and financial performance.

Cost of sales

Our cost of sales comprises mainly raw materials and engineering costs in relation to the provision of engineering services to customers. Our cost of sales amounted to 69.3%, 71.4%, 75.8%, 71.8% and 72.2% of our total revenue in FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

In relation to “Maintenance services” stated in Note 5 of the Audited Consolidated Financial Statements, maintenance services income was the fee that our Group had charged our customers for maintenance services. There was no maintenance service business line in FY2021 and during 6M2022. Therefore, maintenance services income was zero for FY2021 and 6M2022. The reason that there was no maintenance service business line in FY2021 and 6M2022 was because following the business restructuring of our Company, the separate maintenance service business line was removed in FY2021. We had undertaken such business restructuring in order to optimise and streamline staff structure. Following our operations restructuring and human resource optimisation by our Company as part of the aforementioned business restructuring, the separate maintenance services team had been merged with installation services team. Such operations restructuring was completed in the second half of 2020. Therefore, our maintenance service income has been included in the line of manufacture and sale of wireless telecommunications network system, equipment and provision of related installation services.

Please refer to the section entitled “*Risk Factors*” of this Introductory Document for factors which may affect our cost of sales and financial performance.

Gross profit

Our gross profit amounted to HK\$1,776.2 million, HK\$1,445.2 million, HK\$1,422.8 million, HK\$681.0 million and HK\$847.1 million for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Gross profit margin

Our gross profit margin was 30.7%, 28.6%, 24.2%, 28.2% and 27.8% for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Other income and gains

Other income and gains comprise mainly bank interest income, government subsidies, exchange gains, VAT refunds and other miscellaneous income. Other income amounted to HK\$176.1 million, HK\$183.4 million, HK\$193.3 million, HK\$68.0 million and HK\$81.6 million for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Research and development expenses

Our research and development expenses comprise mainly staff costs and amortisation expenses. Research and development expenses amounted to HK\$346.8 million, HK\$471.1 million, HK\$608.9 million, HK\$256.8 million and HK\$259.5 million, representing 6.0%, 9.3%, 10.4%, 10.6% and 8.5% of our total revenue for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Our Group's R&D expenses are being capitalised and/or expensed off in accordance with the applicable accounting standards issued by the HKICPA and the capitalised R&D expenses meet the recognition criteria for the Track Record Period. There will not be any material write-off of capitalised R&D expenses in the next 12 months.

Selling and distribution expenses

Our selling and distribution expenses comprise mainly staff costs, travelling, hospitality, promotion, consulting and services expenses. Selling and distribution costs amounted to HK\$559.6 million, HK\$542.3 million, HK\$597.5 million, HK\$235.7 million and HK\$265.1 million, representing 9.7%, 10.7%, 10.2%, 9.7% and 8.7% of our total revenue for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Administrative expenses

Administrative expenses comprise mainly staff costs, depreciation and amortisation, office expenses and bank charges. Administrative expenses amounted to HK\$574.0 million, HK\$571.5 million, HK\$601.1 million, HK\$216.7 million and HK\$214.9 million, representing 9.9%, 11.3%, 10.2%, 9.0% and 7.1% of our total revenue for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Other expenses

Other expenses comprise mainly credit impairment loss, and depreciation and amortisation related to ETL's business. Other expenses amounted to HK\$237.2 million, HK\$243.5 million, HK\$428.3 million, HK\$112.3 million and HK\$87.6 million, representing 4.1%, 4.8%, 7.3%, 4.6% and 2.9% of our total revenue for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Finance costs

Finance costs comprise mainly interest on bank loans. Finance costs amounted to HK\$104.0 million, HK\$69.4 million, HK\$43.8 million, HK\$21.4 million and HK\$21.7 million, representing 1.8%, 1.4%, 0.7%, 0.9% and 0.7% of our total revenue in FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

Share of profit of a joint venture

Share of profit of a joint venture relates to our share of profits generated from our joint venture company, CLB Elektronik Elektrik İletişim Üretim Araştırma Geliştirme Mühendislik Sanayi Ve Ticaret Anonim Şirketi amounted to nil, HK\$1.1 million, HK\$7.0 million, HK\$4.9 million and HK\$2.0 million in FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively. The joint venture company is mainly involved in the manufacturing and sale of electronic products in Turkey.

Profit/(Loss) before tax

Our profit/(loss) before tax by business segments is as follows:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Wireless telecommunications network system equipment and services	299,600	229.3	(38,793)	14.5	(460,555)	70.2	(5,420)	6.1	171,336	208.8
Operator telecommunication services	(168,925)	(129.3)	(229,319)	85.5	(195,902)	29.8	(83,637)	93.9	(89,280)	(108.8)
Total	130,675	100.0	(268,112)	100.0	(656,457)	100.0	(89,057)	100.0	82,056	100.0

Income tax expense

Income tax expense comprises current and deferred tax. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which our Group operates, based on existing legislations, interpretations and practices in respect thereof. Under the EIT Law, the subsidiaries in the PRC are subject to corporate income tax at a statutory rate of 25.0%, except for certain subsidiaries that are entitled to the preferential tax rate of 15.0% based on their designation as “High-New Technology Enterprises” on their respective taxable income during the year/period.

Income tax expense amounted to HK\$61.9 million, HK\$23.0 million, HK\$16.1 million, HK\$26.9 million and HK\$23.3 million. Our overall effective tax rates were 47.3%, (8.6)%, (2.5)%, (30.3)% and 28.4% for FY2019, FY2020, FY2021, 6M2021 and 6M2022 respectively.

REVIEW OF PAST PERFORMANCE

FY2019 vs FY2020

Revenue

Our revenue decreased by HK\$722.7 million, or 12.5%, from HK\$5,779.9 million in FY2019 to HK\$5,057.2 million in FY2020.

The decrease in revenue was mainly due to the following:

- (i) *Revenue from our wireless telecommunications network system equipment and services business segment*

Revenue from our wireless telecommunications network system equipment and services business segment decreased by HK\$734.0 million, or 13.1%, from HK\$5,624.1 million in FY2019 to HK\$4,890.1 million in FY2020, mainly due to certain delays in the global construction of the 5G network due to the COVID-19 outbreak resulting in a drop in sales in the base station antennas and subsystems business sub-segment.

- (ii) *Revenue from our operator telecommunication services business segment*

Revenue from our operator telecommunication services business segment increased by HK\$11.2 million, or 7.2%, from HK\$155.9 million in FY2019 to HK\$167.1 million in FY2020 due to the improvement in the business since the completion and full commercialisation of the nationwide 4.5G network in Laos by our subsidiary, ETL.

Cost of sales

Cost of sales decreased by HK\$391.6 million or 9.8% from HK\$4,003.7 million in FY2019 to HK\$3,612.1 million in FY2020. The decrease was mainly due to a decrease in revenue.

Gross profit and gross profit margin

Gross profit decreased by HK\$331.0 million or 18.6% from HK\$1,776.2 million in FY2019 to HK\$1,445.2 million in FY2020. Gross profit margin decreased from 30.7% in FY2019 to 28.6% in FY2020. The decrease in the gross profit margin was mainly due to a change in our Group's product income structure, brought about by the delay in the construction of the 5G network due to the COVID-19 pandemic, as well as related expenses such as trade tariff, transportation fee and others which increased as a result of the impact of COVID-19.

Other income and gains

Other income and gains increased by HK\$7.3 million or 4.1% from HK\$176.1 million in FY2019 to HK\$183.4 million in FY2020, mainly due to the increase in government subsidies for the encouragement of our Group's technological innovation, intellectual property and R&D investment in FY2020.

Research and development expenses

Research and development expenses increased by HK\$124.3 million or 35.8% from HK\$346.8 million in FY2019 to HK\$471.1 million in FY2020, mainly due to an increase in 5G-related R&D investments as our Group promoted innovation to capture business opportunities amidst the digitalisation of the mobile telecommunications industry in FY2020.

Selling and distribution expenses

Selling and distribution expenses decreased by HK\$17.3 million or 3.1% from HK\$559.6 million in FY2019 to HK\$542.3 million in FY2020. This was mainly due to our Group upgrading its business expansion strategy to focus on more profitable projects and boost the efficiency of resources investment in FY2020.

Administrative expenses

Administrative expenses remained relatively stable at HK\$574.0 million in FY2019 to HK\$571.5 million in FY2020. This was mainly due to our Group's commitment to optimising its organisational management structure, which continued to boost our operational efficiency.

Other expenses

Other expenses increased by HK\$6.3 million or 2.7% from HK\$237.2 million in FY2019 to HK\$243.5 million in FY2020. This was mainly due to the increase in depreciation of ETL's equipment.

Finance costs

Finance costs significantly decreased by HK\$34.6 million or 33.3% from HK\$104.0 million in FY2019 to HK\$69.4 million in FY2020. This was mainly due to lower interest rates on bank borrowings and the decline in loans in FY2020.

Share of profit of a joint venture

Share of profit of a joint venture of HK\$1.1 million was recorded in FY2020. This was mainly due to the completion of capital injection in FY2020 for the joint venture company in Turkey, CLB Elektronik Elektrik İletişim Üretim Araştırma Geliştirme Mühendislik Sanayi Ve Ticaret Anonim şirketi, and therefore we started recognising our share of profits for the aforementioned joint venture company in FY2020.

Profit/(Loss) before tax

We recorded a loss before tax of HK\$268.1 million in FY2020 as compared to a profit before tax of HK\$130.7 million in FY2019. This was mainly due to the impact of the COVID-19 pandemic on the global economy, which affected the market demand and caused a varying degree of delays in the construction of the telecommunication network across the world.

Income tax expense

Income tax expense decreased by HK\$38.9 million or 62.8% from HK\$61.9 million in FY2019 to HK\$23.0 million in FY2020. The decrease in the overall taxation charge was mainly due to the decrease in revenue for FY2020.

FY2020 vs FY2021

Revenue

Our revenue increased by HK\$812.5 million, or 16.1%, from HK\$5,057.2 million in FY2020 to HK\$5,869.7 million in FY2021.

The increase in revenue was mainly due to the following:

- (i) *Revenue from our wireless telecommunications network system equipment and services business segment*

Revenue from our wireless telecommunications network system equipment and services business segment increased by HK\$768.1 million, or 15.7%, from HK\$4,890.1 million in FY2020 to HK\$5,658.2 million in FY2021, mainly attributable to the successful tender for the centralised procurement projects of related antenna products of the three (3) major telecom operators in the PRC and the expansion of overseas business in FY2021, in particular, satisfactory results have been attained for products in respect of domestic antenna and subsystem business and the overseas networks.

- (ii) *Revenue from our operator telecommunication services business segment*

Revenue from our operator telecommunication services business segment increased by HK\$44.3 million, or 26.5%, from HK\$167.1 million in FY2020 to HK\$211.4 million in FY2021 mainly due to the improvement in the business since the completion and full commercialisation of the nationwide 4.5G network in Laos by ETL.

The rapid technological development in the telecommunications industry resulted in provision for outdated, obsolete and sluggish inventories. Such inventories include materials that we had procured to manufacture our products, and some of such materials became obsolete due to rapid technological development and changes. Therefore, our Group's expenses in respect of inventories provision increased significantly in FY2021. The period for the cycle of our Group's inventory is dependent on our customers' orders as our products are generally customised to the customers' requirements. The average period of our inventory cycle for FY2019, FY2020, FY2021

and 6M2022 are 114 days, 125 days, 108 days and 114 days respectively. Please refer to the section entitled “*Business – Inventory Management*” of this Introductory Document for more information. The production plan of our Group is based on the sales orders of our customers. Such sales orders are subject to cancellation by the relevant customers until the actual deliveries. Due to the fast market demand change, some sales orders were cancelled by our customers before the actual deliveries. In order to maintain good customer relationship, our Company normally would not pursue any recourse it may have against such customers for the cancellation of sales orders. The material inventory obsolescence during the Track Record Period had arisen as a result.

Our Group’s accounting policies on inventories are that inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices less any estimated costs to be incurred on completion and disposal.

Cost of sales

Cost of sales increased by HK\$834.7 million or 23.1% from HK\$3,612.1 million in FY2020 to HK\$4,446.8 million in FY2021. The increase was mainly due to the increase in the provision for inventories and the higher costs of operation, including the increase in costs as a result of the continuous rise in global bulk commodity prices and transportation fees.

Gross profit and gross profit margin

Gross profit slightly decreased by HK\$22.4 million or 1.5% from HK\$1,445.2 million in FY2020 to HK\$1,422.8 million in FY2021. Gross profit margin decreased from 28.6% in FY2020 to 24.2% in FY2021. The decrease in gross profit margin was mainly due to the greater rate of increase in the cost of sales as compared to the revenue, mainly due to the 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 and transportation fees.

Other income and gains

Other income and gains increased by HK\$9.9 million or 5.4% from HK\$183.4 million in FY2020 to HK\$193.3 million in FY2021, mainly due to the increase in gains on equity investments designated at fair value through profit or loss, technical services income and bank interest income.

Research and development expenses

Research and development expenses increased by HK\$137.8 million or 29.3% from HK\$471.1 million in FY2020 to HK\$608.9 million in FY2021. 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, our Group increased its 5G-related R&D investments and promoted innovation continuously to capture business opportunities amidst the digitalisation of the mobile telecommunications industry.

Selling and distribution expenses

Selling and distribution expenses increased by HK\$55.2 million or 10.2% from HK\$542.3 million in FY2020 to HK\$597.5 million in FY2021 in view of our Group’s commitment to strengthening its business expansion.

Administrative expenses

Administrative expenses increased by HK\$29.6 million or 5.2% from HK\$571.5 million in FY2020 to HK\$601.1 million in FY2021. This was mainly due to an increase in staff costs.

Other expenses

Other expenses increased by HK\$184.8 million or 75.9% from HK\$243.5 million in FY2020 to HK\$428.3 million in FY2021. This was mainly due to the increase in expenses in respect of receivables provision and others as a result of the impact of the COVID-19 pandemic on the recoverability of receivables and the goodwill of our Group's subsidiaries was impaired in FY2021.

Comdi Communication Technology Ltd (京迪通信技术有限公司) and Nanjing Comdi Communication Equipment Co., Ltd. (南京京迪通信设备有限公司) (the “**Comdi Companies**”) are subsidiaries of our Group, which are mainly engaged in satellite communications. Their recoverable amount is less than their carrying amount and as such, an impairment loss of the goodwill of HK\$10.3 million in FY2021 was recognised. Considering that the actual performance of the Comdi Companies in FY2021 fell below the target set by our Group, the management of our Company had lowered the profit prospect of the respective Comdi Companies. As such, the recoverable amount was less than the carrying amount for the respective Comdi Companies. The goodwill of the Comdi Companies has been fully impaired, and hence there will not be further impairment on the goodwill of the Comdi Companies or any further impairment in the next 12 months.

Finance costs

Finance costs decreased by HK\$25.6 million or 36.9% from HK\$69.4 million in FY2020 to HK\$43.8 million in FY2021. This was mainly due to the fact that our Group optimised the loan portfolio and the decrease in the interests arising from the lower market interest rates in FY2021.

Share of profit of a joint venture

Share of profit of a joint venture increased by HK\$5.9 million or 536.4% from HK\$1.1 million in FY2020 to HK\$7.0 million in FY2021. This was mainly due to the expansion of the operation of the joint venture.

Loss before tax

Loss before tax increased by HK\$388.4 million or 144.9% from HK\$268.1 million in FY2020 to HK\$656.5 million in FY2021. This was mainly due to the increase in provision for receivables and inventories, and research and development expenses in FY2021.

Income tax expense

Income tax expense decreased by HK\$6.9 million or 30.0% from HK\$23.0 million in FY2020 to HK\$16.1 million in FY2021. The decrease in income tax expense was mainly due to the decrease in taxable profit recorded by certain subsidiaries.

6M2021 vs 6M2022

Revenue

Our revenue increased by HK\$624.4 million, or 25.8%, from HK\$2,418.1 million in 6M2021 to HK\$3,042.5 million in 6M2022.

The increase in revenue was mainly due to the following:

(i) *Revenue from our wireless telecommunications network system equipment and services business segment*

Revenue from our wireless telecommunications network system equipment and services business segment increased by HK\$631.9 million, or 27.3%, from HK\$2,315.1 million in 6M2021 to HK\$2,947.0 million in 6M2022, mainly due to our Group's successful tender for the centralised procurement projects of related antenna products from major PRC telecom operators in the second half of 2021 and completing the phased launch and delivery of these projects on schedule in 6M2022.

(ii) *Revenue from our operator telecommunication services business segment*

Revenue from our operator telecommunication services business segment decreased by HK\$7.5 million, or 7.3%, from HK\$103.0 million in 6M2021 to HK\$95.5 million in 6M2022 mainly due to the depreciation in the exchange rate for Lao Kip against the Hong Kong dollar of 22.2% in 6M2022, pursuant to ETL's business operations in Laos.

Cost of sales

Cost of sales increased by HK\$458.3 million or 26.4% from HK\$1,737.1 million in 6M2021 to HK\$2,195.4 million in 6M2022. The increase was mainly due to an increase in revenue.

Gross profit and gross profit margin

Gross profit increased by HK\$166.1 million or 24.4% from HK\$681.0 million in 6M2021 to HK\$847.1 million in 6M2022. This was mainly due to higher contribution from our base station antennas and subsystems business sub-segment, which was partially offset by lower contribution from our services sub-segment.

Gross profit margin decreased slightly from 28.2% in 6M2021 to 27.8% in 6M2022. The slight decrease was mainly due to our Group's strategy to undertake certain construction projects with lower gross profit margins but sound cash flows by the service business sub-segment in 6M2022.

Other income and gains

Other income and gains increased by HK\$13.6 million or 20.0% from HK\$68.0 million in 6M2021 to HK\$81.6 million in 6M2022, due to the increase in government subsidies for the encouragement of our Group's technological innovation, intellectual property and R&D investment in 6M2022.

Research and development expenses

Research and development expenses remained relatively stable at HK\$256.8 million in 6M2021 and HK\$259.5 million in 6M2022, respectively. To enhance the competitiveness of its new 5G products, our Group invested resources in relevant R&D activities and embraced continuous innovation to capture business opportunities arising from the digitalisation of the mobile telecommunications industry.

Selling and distribution expenses

Selling and distribution expenses increased by HK\$29.4 million or 12.5% from HK\$235.7 million in 6M2021 to HK\$265.1 million in 6M2022. This was mainly due to our Group expanding its business which led to an increase in related expenses such as transportation and distribution expenses. However, the proportion of selling and distribution expenses within our Group's revenue improved in 6M2022 compared with 6M2021. This was mainly due to our Group's strategy of upgrading its business expansion to focus on more profitable projects, thereby making its investment in resources more cost-effective.

Administrative expenses

Administrative expenses remained relatively stable at HK\$216.7 million in 6M2021 and HK\$214.9 million in 6M2022, respectively. This was mainly due to our Group's commitment to optimising its management and organisational structure, thereby enhancing its operational efficiency.

Other expenses

Other expenses decreased by HK\$24.7 million or 22.0% from HK\$112.3 million in 6M2021 to HK\$87.6 million in 6M2022. This was mainly due to the turnaround from loss to gain on fair value change of redeemable preferred shares in a subsidiary of our Group in 6M2022.

Finance costs

Finance costs remained relatively stable at HK\$21.4 million in 6M2021 and HK\$21.7 million in 6M2022, respectively, mainly due to our Group further optimising its loan portfolio in 6M2022.

Share of profit of a joint venture

Share of profit of a joint venture decreased by HK\$2.9 million or 59.2% from HK\$4.9 million in 6M2021 to HK\$2.0 million in 6M2022. This was mainly due to downsizing of the operations of the joint venture.

Profit/(Loss) before tax

We recorded a profit before tax of HK\$82.1 million in 6M2022 as compared to a loss before tax of HK\$89.1 million in 6M2021. This was mainly due to a significant increase in revenue and gross profit of our Group, as well as a reduction in the operating expenses ratio resulting from effective cost and expenses control measures implemented by our Group in 6M2022.

Income tax expense

Income tax expense decreased by HK\$3.6 million or 13.4% from HK\$26.9 million in 6M2021 to HK\$23.3 million in 6M2022. The decrease in income tax expense was mainly due to the increase in the deferred tax credit during 6M2022.

REVIEW OF PAST FINANCIAL POSITION

As at 31 December 2021

Non-current assets

As at 31 December 2021, our non-current assets amounted to HK\$3,294.6 million, and accounted for 28.6% of our total assets.

Our non-current assets comprise property, plant and equipment, right-of-use assets, goodwill, deferred tax assets, intangible assets, equity investments designated at fair value through other comprehensive income, equity investments designated at fair value through profit or loss, restricted bank deposits, time deposits, and investment in a joint venture.

Property, plant and equipment amounted to HK\$1,347.7 million and accounted for 40.9% of non-current assets, which includes land and buildings, staff quarters, plant and machinery, furniture, fixtures and office equipment, motor vehicles and construction in progress.

Right-of-use assets amounted to HK\$217.0 million and accounted for 6.6% of non-current assets, which comprised of prepaid land lease payment, buildings and other equipment.

Goodwill amounted to HK\$242.8 million and accounted for 7.4% of non-current assets, arising from previous acquisitions.

Deferred tax assets amounted to HK\$225.6 million and accounted for 6.8% of non-current assets, arising from tax effects of unrealised profit, accruals, product warranty and losses available for offsetting against future taxable profits.

Intangible assets amounted to HK\$806.3 million and accounted for 24.5% of non-current assets, which comprised of operating licence, computer software and technology, golf club membership and deferred development costs.

Equity investments designated at fair value through other comprehensive income amounted to HK\$62.8 million and accounted for 1.9% of non-current assets, which comprised of unlisted equity investments at fair value.

Equity investments designated at fair value through profit or loss amounted to HK\$90.5 million and accounted for 2.7% of non-current assets, which comprised of unlisted equity investments at fair value.

Restricted bank deposits amounted to HK\$26.2 million and accounted for 0.8% of non-current assets, which comprised of the non-current portion of the restricted deposits given to banks in respect of bills payable and performance bonds.

Time deposits amounted to HK\$257.4 million and accounted for 7.8% of non-current assets, which comprised of the non-current portion of time deposits with original maturity of over three (3) months.

Investment in a joint venture amounted to HK\$18.4 million and accounted for 0.6% of non-current assets, which comprised of share of net assets and goodwill on acquisition of a joint venture.

Current assets

As at 31 December 2021, our current assets amounted to HK\$8,218.0 million, and accounted for 71.4% of total assets.

Our current assets comprise inventories, trade receivables, notes receivables, prepayments, other receivables and other assets, financial assets at fair value through profit or loss, restricted bank deposits, time deposits, and cash and cash equivalents.

Inventories amounted to HK\$1,356.3 million and accounted for 16.5% of current assets, which comprised of raw materials, project materials, work in progress, finished goods and inventoried on site.

Trade receivables amounted to HK\$4,129.1 million, and accounted for 50.2% of current assets. These are mainly trade receivables from our customers, and retention money which is for assurance that the products and services comply with agreed-upon specifications, of approximately 10.0% to 20.0% of the total contract sum of each project and are generally receivable after final certification of products by customers, which would be performed six (6) to 12 months after sale.

Notes receivables amounted to HK\$97.1 million and accounted for 1.2% of current assets.

Prepayments, other receivables and other assets amounted to HK\$627.0 million and accounted for 7.6% of current assets. These are mainly prepayments, deposits and other receivables. Deposits and other receivables mainly represent rental deposits and deposits with suppliers.

Financial assets at fair value through profit or loss amounted to HK\$3.1 million and accounted for 0.04% of current assets. These are forward currency contracts not designated for hedging purposes.

Restricted bank deposits amounted to HK\$107.9 million and accounted for 1.3% of current assets.

Time deposits amounted to HK\$245.1 million and accounted for 3.0% of current assets.

Cash and cash equivalents amounted to HK\$1,652.2 million and accounted for 20.1% of current assets.

Non-current liabilities

As at 31 December 2021, our non-current liabilities amounted to HK\$1,367.1 million, and accounted for 18.7% of total liabilities.

Our non-current liabilities comprise mainly interest-bearing bank borrowings that are payable in more than one (1) year's time, deferred tax liabilities, lease liabilities and redeemable preferred shares in a subsidiary.

Interest-bearing bank borrowings amounted to HK\$800.0 million and accounted for 58.5% of non-current liabilities.

Deferred tax liabilities amounted to HK\$164.1 million, and accounted for 12.0% of non-current liabilities. Deferred tax liabilities arise from tax effects of revaluation of properties, fair value adjustments arising from acquisition of subsidiaries, and fair value adjustments for equity investments designated at fair value.

Lease liabilities amounted to HK\$60.3 million, accounting for 4.4% of non-current liabilities. These are mainly relating to lease contracts for buildings and other equipment.

Redeemable preferred shares in a subsidiary amounted to HK\$342.8 million and accounted for 25.1% of non-current liabilities. These are redeemable preferred shares issued by Comba Network (incorporated in the PRC) to one (1) and four (4) investors in FY2020 and FY2021 respectively.

Current liabilities

As at 31 December 2021, our current liabilities amounted to HK\$5,961.6 million, and accounted for 81.3% of total liabilities.

Our current liabilities comprise trade and bills payables, other payables and accruals, interest-bearing bank borrowings, tax payables, and provision for product warranties.

Trade and bills payables amounted to HK\$4,544.8 million and accounted for 76.2% of current liabilities. Such payables are non-interest bearing and are normally settled within a period of three (3) months and are extendable to a longer period.

Other payables and accruals amounted to HK\$623.2 million and accounted for 10.5% of current liabilities. These comprise mainly accruals, contract liabilities, lease liabilities and other payables. Other payables are non-interest-bearing and have an average term of one (1) year.

Interest-bearing bank borrowings amounted to HK\$644.7 million and accounted for 10.8% of current liabilities. These are the current portion of the interest-bearing bank borrowings which are due within 12 months.

Tax payable amounted to HK\$73.5 million and accounted for 1.2% of current liabilities.

Provision for product warranties amounted to HK\$75.3 million and accounted for 1.3% of current liabilities. Our Group generally provides warranties of one (1) to two (2) years to our customers on certain of our products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volumes and past experience of the level of repairs and returns.

Equity

As at 31 December 2021, our total equity amounted to HK\$4,183.8 million. This comprises issued capital of HK\$277.9 million, treasury shares of HK\$(22.8) million and reserves of HK\$3,519.6 million comprising share premium accounts, share-based compensation reserve, capital reserve, asset revaluation reserve, statutory reserve, exchange fluctuation reserve, fair value reserve of equity instruments at fair value through other comprehensive income, and retained earnings. The equity attributable to non-controlling interest amounted to HK\$409.1 million.

As at 30 June 2022

Non-current assets

As at 30 June 2022, our non-current assets amounted to HK\$3,192.1 million, and accounted for 28.2% of our total assets.

Our non-current assets comprise property, plant and equipment, right-of-use assets, goodwill, deferred tax assets, intangible assets, equity investments designated at fair value through other comprehensive income, equity investments designated at fair value through profit or loss, restricted bank deposits, time deposits, and investments in a joint venture.

Property, plant and equipment amounted to HK\$1,222.2 million and accounted for 38.3% of non-current assets, which includes land and buildings, staff quarters, plant and machinery, furniture, fixtures, office equipment, motor vehicles and construction in progress.

Right-of-use assets amounted to HK\$201.8 million and accounted for 6.3% of non-current assets, which comprised leasehold land, buildings, telecom towers and other equipment.

Goodwill amounted to HK\$242.8 million and accounted for 7.6% of non-current assets, arising from previous acquisitions.

Deferred tax assets amounted to HK\$213.0 million and accounted for 6.7% of non-current assets, arising from tax effects of unrealised profits, accruals, product warranty and losses available for offsetting against future taxable profits.

Intangible assets amounted to HK\$750.1 million and accounted for 23.5% of non-current assets, which comprised operating licences, computer software and technology, golf club memberships and deferred development costs. As 5G enters into the stage of large-scale construction, our Group will maintain its R&D investments, continuously foster innovation, enhance the competitive edge of its existing products, and expedite the launch and commercial use of 5G products in order to capture business opportunities amidst the digitalisation of the mobile telecommunications industry during the Track Record Period. Therefore, there was an increase in capitalisation of development expenses into intangible assets during the Track Record Period.

There will not be any material write-off of capitalised R&D expenses in the next 12 months.

Equity investments designated at fair value through other comprehensive income amounted to HK\$57.5 million and accounted for 1.8% of non-current assets, which comprised unlisted equity investments, at fair value.

Equity investments designated at fair value through profit or loss amounted to HK\$93.4 million and accounted for 2.9% of non-current assets, which comprised of unlisted equity investments at fair value.

Restricted bank deposits amounted to HK\$30.6 million and accounted for 1.0% of non-current assets, which comprised the non-current portion of the restricted deposits given to banks in respect of bills payable and performance bonds.

Time deposits amounted to HK\$363.0 million and accounted for 11.4% of non-current assets, which comprised the non-current portion of time deposits with original maturity of over three (3) months.

Investment in a joint venture amounted to HK\$17.7 million and accounted for 0.6% of non-current assets, which comprised share of net assets and goodwill on acquisition of a joint venture.

Current assets

As at 30 June 2022, our current assets amounted to HK\$8,116.6 million, and accounted for 71.8% of total assets.

Our current assets comprise inventories, trade receivables, notes receivables, prepayments, other receivables and other assets, financial assets at fair value through profit or loss, restricted bank deposits, time deposits, and cash and cash equivalents.

Inventories amounted to HK\$1,388.0 million and accounted for 17.1% of current assets, which comprised raw materials, project materials, work in progress, finished goods and inventories on site.

Trade receivables amounted to HK\$4,126.3 million, and accounted for 50.8% of current assets. These are mainly trade receivables from our customers, and retention money which is for assurance that the product and services comply with agreed-upon specifications, of approximately 10.0% to 20.0% of the total contract sum of each project and are generally receivable after final certification of products by customers, which would be performed six (6) to 12 months after sale.

Notes receivables amounted to HK\$169.8 million and accounted for 2.1% of current assets.

Prepayments, other receivables and other assets amounted to HK\$498.6 million and accounted for 6.1% of current assets. These are mainly prepayments, deposits and other receivables. Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers.

Financial assets at fair value through profit or loss amounted to HK\$2.3 million and accounted for 0.03% of current assets. These are forward currency contracts not designated for hedging purposes.

Restricted bank deposits amounted to HK\$115.4 million and accounted for 1.4% of current assets.

Time deposits amounted to HK\$117.1 million and accounted for 1.4% of current assets.

Cash and cash equivalents amounted to HK\$1,699.0 million and accounted for 20.9% of current assets.

Non-current liabilities

As at 30 June 2022, our non-current liabilities amounted to HK\$1,289.1 million, and accounted for 17.7% of total liabilities.

Our non-current liabilities comprise mainly interest-bearing bank borrowings that are payable in more than one (1) year's time, deferred tax liabilities, lease liabilities and redeemable preferred shares in a subsidiary.

Interest-bearing bank borrowings amounted to HK\$760.0 million and accounted for 59.0% of non-current liabilities.

Deferred tax liabilities amounted to HK\$158.7 million, and accounted for 12.3% of non-current liabilities. Deferred tax liabilities arise from tax effects of revaluation of properties, fair value adjustments arising from acquisition of subsidiaries, and fair value adjustments for equity investments designated at fair value.

Lease liabilities amounted to HK\$44.7 million, accounting for 3.5% of non-current liabilities. These are mainly relating to lease contracts for buildings and other equipment.

Redeemable preferred shares in a subsidiary amounted to HK\$325.7 million and accounted for 25.3% of non-current liabilities. These are redeemable preferred shares issued by Comba Network (incorporated in the PRC) to one (1) and four (4) investors in 6M2021 and 6M2022 respectively.

Current liabilities

As at 30 June 2022, our current liabilities amounted to HK\$5,976.6 million, and accounted for 82.3% of total liabilities.

Our current liabilities comprise trade and bills payables, other payables and accruals, interest-bearing bank borrowings, tax payables, and provision for product warranties.

Trade and bills payables amounted to HK\$4,372.8 million and accounted for 73.2% of current liabilities. Such payables are non-interest bearing and are normally settled within a period of three (3) months and are extendable to a longer period.

Other payables and accruals amounted to HK\$596.4 million and accounted for 10.0% of current liabilities. These comprise mainly accruals, contract liabilities, lease liabilities and other payables. Other payables are non-interest-bearing and have an average term of one (1) year.

Interest-bearing bank borrowings amounted to HK\$851.8 million and accounted for 14.3% of current liabilities. These are the current portion of the interest-bearing bank borrowings which are due within 12 months.

Tax payable amounted to HK\$82.2 million and accounted for 1.4% of current liabilities.

Provision for product warranties amounted to HK\$73.4 million and accounted for 1.2% of current liabilities. Our Group generally provides warranties of one (1) to two (2) years to our customers on certain of our products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volumes and past experience of the level of repairs and returns.

Equity

As at 30 June 2022, our total equity amounted to HK\$4,042.9 million. This comprises issued capital of HK\$278.0 million, treasury shares of HK\$(22.8) million and reserves of HK\$3,529.6 million comprising share premium accounts, share-based compensation reserve, capital reserve, asset revaluation reserve, statutory reserve, exchange fluctuation reserve, fair value reserve of equity instruments at fair value through other comprehensive income, and retained earnings. The equity attributable to non-controlling interest amounted to HK\$258.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Our operations have been funded through internal and external sources of funds. Internal sources of funds comprise cash generated from our Group's operating activities. External sources of funds comprise mainly bank borrowings.

Our Directors are of the reasonable opinion that, after having made due and careful enquiry and after taking into account the prospects as set out in the section entitled "*Telecommunications Equipment Industry and Prospects*" of this Introductory Document, the trend information as set out in the sections entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Trend Information*" and "*Business – Business Strategies and Future Plans*" of this Introductory Document, the risk factors as set out in the section entitled "*Risk Factors*" of this Introductory Document, the net cash flows generated from our operations, our lease commitments, our capital commitments, our unutilised bank facilities and our existing cash and cash equivalents, the working capital available to our Group as at the date of this Introductory Document is sufficient to meet our present requirements and for at least 12 months after the Introduction after taking into account the negative operating cash flow, net losses, contingent liabilities and restricted bank deposits during the Track Record Period as well as our Group's net cash⁽¹⁾ position as at 31 December 2019, 2020 and 2021 amounting to HK\$349,772,000, HK\$494,381,000 and HK\$844,137,000 respectively.

The following table sets out a summary of our Group's cash flow for FY2019, FY2020, FY2021, 6M2021 and 6M2022:

HK\$'000	FY2019	FY2020	FY2021	6M2021	6M2022
Net cash from/(used in) operating activities	709,587	(334,512)	374,606	(48,274)	95,387
Net cash from/(used in) investing activities	(418,758)	(223,062)	(744,145)	(84,591)	(114,848)
Net cash from/(used in) financing activities	(310,193)	385,361	267,810	171,621	119,063
Net increase/(decrease) in cash and cash equivalents	(19,364)	(172,213)	(101,729)	38,756	99,602
Cash and cash equivalents at beginning of the year	1,893,859	1,867,186	1,716,786	1,716,786	1,652,228
Effect of foreign exchange rate changes, net	(7,309)	21,813	37,171	18,463	(52,851)
Cash and cash equivalents at end of the year	1,867,186	1,716,786	1,652,228	1,774,005	1,698,979

Note:

(1) Net cash = Restricted bank deposits + Time deposits + Cash and cash equivalents – Interest bearing bank borrowings.

In FY2020, the negative cash flow from operations was mainly a result of the sudden outbreak of the COVID-19 pandemic, which resulted in a significant delay in the progress of 5G construction and decrease in revenue. In 6M2021, the negative cashflow from operations was mainly a result of the prolonged impact of the outbreak of the COVID-19 pandemic, which resulted in a delay in 5G construction worldwide.

Over the past 10 financial years, FY2020 was the only financial year in which our Company had generated negative cash flow from operations.

Our Company continues to leverage on its strong product strengths to win bids from major domestic telecom operators in the PRC for centralised procurement projects of related 5G antenna products and has grown its overseas business and strengthened its cooperation with internationally renowned key equipment manufacturers in areas of 5G development. Our Group was therefore able to achieve our position as the leading supplier. Therefore, the revenue of our Group increased by 16.1% in FY2021 as compared with FY2020 and recorded net inflow for cash flows from operating activities of HK\$375 million during FY2021, representing an improvement over the net outflow for cash flows from operating activities in FY2020 and 6M2021. In addition, our Company has been more disciplined with its costs and monitoring of trade receivables due.

Moving forward, our Company will be more selective on the service projects that we will take on, and shift our focus towards projects that offer better terms from a cashflow perspective. We also provide incentives to our sales staff and tie their key performance indicator to the amount of receivables that such sales staff can collect from our customers. Further, we are upgrading our enterprise resource planning software system (a system that we use to manage and monitor our business activities such as receivable collection) so that the management of our Company is able to obtain information in relation to our accounts receivable collection status more quickly. Please refer to the section entitled “*Business – Credit Management – Credit Terms to Our Customers*” of this Introductory Document for further details.

FY2019

In FY2019, we recorded a net cash from operating activities of HK\$709.6 million which was a result of operating cash flow before working capital changes of HK\$523.4 million, adjusted for working capital inflow⁽¹⁾ of HK\$234.5 million, tax paid of HK\$42.8 million and interest paid on lease liabilities of HK\$5.5 million. The net working capital inflow was mainly due to a decrease in inventories of HK\$93.2 million, decrease in trade receivables of HK\$100.5 million, decrease in prepayments, other receivables and other assets of HK\$173.5 million, increase in other payables and accruals of HK\$104.8 million and increase in product warranties of HK\$11.2 million, partially offset by increase in notes receivables of HK\$39.9 million and decrease in trade and bills payables of HK\$208.9 million.

Net cash used in investing activities amounted to HK\$418.8 million which was mainly due to purchases of property, plant and equipment amounting to HK\$397.9 million, additions to intangible assets amounting to HK\$96.6 million, purchase of equity investments designated at fair value through other comprehensive income/profit or loss amounting to HK\$13.6 million, partially offset by interest received amounting to HK\$16.2 million, proceeds from disposal of property, plant and equipment amounting to HK\$19.0 million, proceeds from partial disposal of financial assets at fair value through profit or loss amounting to HK\$14.3 million and decrease in restricted bank deposits amounting to HK\$39.9 million.

Note:

- (1) Change in trade receivables, notes receivables, prepayments, other receivables and other assets, trade and bills payables, other payables and accruals and provision for product warranties in statement of cash flows.

Net cash used in financing activities amounted to HK\$310.2 million, which was mainly due to repayment of bank loans amounting to HK\$1,693.3 million, principal portion of lease payments of HK\$39.1 million, interest and other finance costs paid amounting to HK\$98.5 million, dividends paid amounting to HK\$24.8 million, and partially offset by new bank loans amounting to HK\$1,458.0 million and proceeds from exercise of share options amounting to HK\$87.5 million.

As a result, there was a net decrease of HK\$19.4 million in our cash and cash equivalents from HK\$1,893.9 million as at 31 December 2018 to HK\$1,867.2 million as at 31 December 2019, after adjusting for the effect of exchange rate fluctuations on cash held amounting to HK\$(7.3) million.

FY2020

In FY2020, we recorded a net cash used in operating activities of HK\$334.5 million which was a result of operating cash flow before working capital changes of HK\$144.6 million, adjusted for working capital outflow⁽¹⁾ of HK\$437.5 million, profits tax paid of HK\$38.1 million and interest paid on lease liabilities of HK\$3.5 million. The net working capital outflow was mainly due to increase in inventories of HK\$11.2 million, decrease in trade and bills payables of HK\$243.3 million and decrease in other payables and accruals of HK\$325.7 million and decrease in provision for product warranties of HK\$3.8 million, partially offset by the decrease in trade receivables of HK\$113.2 million, decrease in notes receivables of HK\$32.4 million and decrease in prepayments, other receivables and other assets of HK\$0.9 million.

Net cash used in investing activities amounted to HK\$223.1 million which was mainly due to purchases of property, plant and equipment amounting to HK\$265.6 million, additions to intangible assets amounting to HK\$90.7 million, purchase of a shareholding in a joint venture amounting to HK\$10.8 million, purchase of financial assets at fair value through profit or loss amounting to HK\$5.3 million, partially offset by interest received amounting to HK\$20.1 million, proceeds from disposal of property, plant and equipment amounting to HK\$33.8 million, proceeds from disposal of intangible assets and decrease in restricted bank deposits amounting to HK\$95.5 million.

Net cash from financing activities amounted to HK\$385.4 million, which was mainly due to new bank loans amounting to HK\$97.4 million, proceeds from exercise of share options of HK\$45.9 million, contribution from the non-controlling shareholders of HK\$94.4 million, proceeds from issue of shares amounting to HK\$701.5 million and issue of redeemable preferred shares in a subsidiary of HK\$111.9 million, partially offset by repayment of bank loans amounting to HK\$495.8 million, principal portion of lease payments amounting to HK\$36.8 million, interest and other finance costs paid amounting to HK\$65.8 million, dividend paid amounting to HK\$52.1 million, and share issue expenses amounting to HK\$15.3 million.

As a result, there was a net decrease of HK\$172.2 million in our cash and cash equivalents from HK\$1,867.2 million as at 31 December 2019 to HK\$1,716.8 million as at 31 December 2020, after adjusting for the effect of exchange rate fluctuations on cash held amounting to HK\$21.8 million.

FY2021

In FY2021, we recorded a net cash from operating activities of HK\$374.6 million which was a result of operating cash outflow before working capital changes of HK\$147.9 million, adjusted for working capital inflow⁽¹⁾ of HK\$553.8 million and tax paid amounting to HK\$31.4 million. The net working capital inflow was mainly due to decrease in trade receivables of HK\$134.9 million, decrease in notes receivable of HK\$41.3 million, decrease in prepayment, other receivables and other assets of HK\$237.9 million, increase in trade and bills payables of HK\$410.9 million, partially offset by the increase in inventories of HK\$39.4 million, decrease in other payables and accruals of HK\$230.3 million and the decrease in provision for product warranties of HK\$1.4 million.

Note:

- (1) Change in trade receivables, notes receivables, prepayments, other receivables and other assets, trade and bills payables, other payables and accruals and provision for product warranties in statement of cash flows.

Net cash used in investing activities amounted to HK\$744.1 million which was mainly due to purchases of property, plant and equipment amounting to HK\$234.6 million, additions of intangible assets amounting to HK\$99.6 million, purchase of financial assets at fair value through profit or loss amounting to HK\$36.1 million, increase in time deposits of HK\$502.6 million, partially offset by interest received amounting to HK\$28.7 million, proceeds from disposal of property, plant and equipment amounting to HK\$69.0 million and decrease in restricted bank deposits amounting to HK\$31.1 million.

Net cash from financing activities amounted to HK\$267.8 million, which was mainly due to new bank loans amounting to HK\$2,318.4 million, proceeds from exercise of share options of HK\$35.2 million, contribution from the non-controlling shareholders of HK\$38.8 million, issue of redeemable preferred shares in a subsidiary of HK\$216.4 million, partially offset by repayment of bank loans amounting to HK\$2,260.8 million, principal portion of lease payments amounting to HK\$36.5 million, interest and other finance costs paid amounting to HK\$43.8 million.

As a result, there was a net decrease of HK\$101.7 million in our cash and cash equivalents from HK\$1,716.8 million as at 31 December 2020 to HK\$1,652.2 million as at 31 December 2021, after adjusting for the effect of exchange rate fluctuations on cash held amounting to HK\$37.2 million.

6M2022

In 6M2022, we recorded a net cash from operating activities of HK\$95.4 million which was a result of operating cash flow before working capital changes of HK\$336.3 million, adjusted for working capital outflow⁽¹⁾ of HK\$227.4 million and tax paid amounting to HK\$13.5 million. The net working capital outflow was mainly due to increase in inventories of HK\$92.3 million, increase in trade receivables of HK\$181.6 million, increase in notes receivable of HK\$77.0 million, decrease in other payables and accruals of HK\$9.6 million, and partially offset by the decrease in prepayments, other receivables and other assets of HK\$100.5 million, increase in trade and bills payable of HK\$30.9 million and the increase in provision of warranty of HK\$1.7 million.

Net cash used in investing activities amounted to HK\$114.8 million which was mainly due to purchase of property, plant and equipment amounting to HK\$59.0 million, additions of intangible assets amounting to HK\$49.0 million, purchase of financial assets designated at fair value through profit or loss amounting to HK\$7.2 million, increase in restricted bank deposits amounting to HK\$17.9 million, and partially offset by interest received amounting to HK\$17.2 million and proceeds from disposal of property, plant and equipment amounting to HK\$1.0 million.

Net cash from financing activities amounted to HK\$119.1 million, which was mainly due to new bank loans amounting to HK\$482.4 million, exercise of share options of HK\$0.8 million, and partially offset by repayment of bank loans amounting to HK\$299.1 million, interest paid of HK\$21.7 million, principal portion of lease payments of HK\$32.0 million and dividends paid to non-controlling shareholders of HK\$11.4 million.

As a result, there was a net increase of HK\$99.6 million in our cash and cash equivalents from HK\$1,652.2 million as at 31 December 2021 to HK\$1,699.0 million as at 30 June 2022, after adjusting for the effect of exchange rate fluctuations on cash held amounting to HK\$(52.9) million.

Note:

- (1) Change in trade receivables, notes receivables, prepayments, other receivables and other assets, trade and bills payables, other payables and accruals and provision for product warranties in statement of cash flows.

CAPITAL EXPENDITURE AND DIVESTMENTS

The capital expenditure and divestments made by our Group for the Track Record Period were as follows:

Capital Expenditure⁽¹⁾

HK\$'000	FY2019	FY2020	FY2021	6M2022
Land and buildings and staff quarters	56,651	16,632	13,374	10,042
Plant and machinery	45,040	118,404	185,639	33,603
Furniture, fixtures and office equipment	12,396	14,430	6,287	10,801
Motor vehicles	800	3,206	6,291	1,317
Construction in progress	291,941	92,969	51,319	3,226
Total	406,828	245,641	262,910	58,989

The capital expenditure during the Track Record Period was mainly for the upgrade and improvement of our manufacturing facilities and our equipment located in the PRC. We have sourced funding for capital expenditures through internally generated funds and loans.

Divestments⁽²⁾

HK\$'000	FY2019	FY2020	FY2021	6M2022
Land and buildings and staff quarters	3,577	8,056	16,583	—
Plant and machinery	9,675	8,811	41,161	1,204
Furniture, fixtures and office equipment	4,248	8,071	2,196	303
Motor vehicles	788	3,592	1,904	371
Construction in progress	—	—	—	—
Total	18,288	28,530	61,844	1,878

Save as disclosed above, there were no other material capital expenditure and/or divestments made by our Group during the Track Record Period.

BORROWINGS

	31 December 2021	30 June 2022
	HK\$'000	HK\$'000
Analysed into:		
Within one (1) year on demand	644,739	851,802
In the 2nd year	160,000	360,000
In the 3rd to 5th years, inclusive	640,000	400,000
	1,444,739	1,611,802

Notes:

(1) Fixed assets additions.

(2) Fixed assets disposals.

As at 30 June 2022, our total borrowings, including current borrowings and non-current borrowings, denominated in Hong Kong dollars and RMB amounted to HK\$1,273,196,000 and HK\$338,606,000 respectively. As at 31 December 2021, our total borrowings, including current borrowings and non-current borrowings, denominated in Hong Kong dollars and RMB amounted to HK\$1,255,975,000 and HK\$188,764,000 respectively.

We are currently not in breach of any terms and conditions or covenants associated with any credit arrangement or bank loan which can materially affect our financial position and results or business operations, or the investment by our Shareholders.

Our Company and nine (9) of its wholly-owned subsidiaries were parties to the bank loans acting as guarantors, to guarantee punctual performance of the obligations under the loan facilities.

All of our bank loans as at 30 June 2022 bear interest at rates ranging from 1.69% to 3.92% per annum.

Our Group does not have any committed borrowings as at 30 June 2022.

CAPITAL COMMITMENTS

As at 30 June 2022, our Group had capital commitments of HK\$12.9 million for plant and machinery. Operating cashflow will be used to fulfil such capital commitments.

CONTINGENT LIABILITIES

As at the 30 June 2022, our Group had contingent liabilities not provided for of HK\$283.1 million for guarantees given to banks in respect of performance bonds.

In order to guarantee the delivery quality, our customers may require us to issue a performance bond as part of the terms and condition of our contracts. Whether performance bonds are issued or required and the amount of such performance bonds are subject to the needs and/or requirements of our customers and negotiation of terms of such performance bonds between parties. The amount of such performance bonds is usually around 10% of the contract sum or a fixed amount required by our customers. The validity of the performance bond would cover the validity of the contract and will be discharged in accordance with the terms and conditions of the relevant contracts.

The contingent liabilities incurred by our Group are in the ordinary course of business. The quantum of the performance bonds is usually within the limit granted by the banks to our Group. Historically, the Group has not experienced any incidents where any of the performance bonds has been called upon.

During the Track Record Period and up to the Latest Practicable Date, none of the performance bonds were called upon. No material performance bonds will be called upon in the next 12 months.

INFLATION

The average wage in the PRC and cost of raw materials increased during the Track Record Period and are expected to increase further. However, we have generally been able to manage our gross profit margin through various measures such as enhancement of manufacturing efficiencies and cost controls.

SEASONALITY

Our sales typically increase in December due to a general increase in demand from our customers during that month.

Our main customers are large state-owned enterprises such as telecommunication operators. Such customers usually have strict budgets and procurement bidding procedures to follow, and the bidding process usually occurs in the first quarter to third quarter of the year. In the event our Company wins the bid(s) and enters into the contract with such customers, we will need to arrange for delivery or provide services in accordance with our contractual terms, and we usually complete delivery or acceptance in the second half of the year, of which our Company will then recognise sales revenue accordingly. Therefore, our Company's operating income in the second half of the year is generally higher than that in the first half of the year, and the operating income in the fourth quarter of the year accounts for a relatively high proportion of our Group's annual revenue.

FOREIGN EXCHANGE MANAGEMENT

As at the Latest Practicable Date, our revenue, expenses, assets and liabilities are mainly transacted or denominated in RMB, US Dollars and Hong Kong Dollars.

We primarily mitigate foreign exchange risks by managing foreign exchange income and expenses in the same currency (natural hedge) as our labour cost and purchases of raw materials are mainly transacted in RMB and 75%, 72%, 69% and 71% of our revenue are transacted in RMB for FY2019, FY2020, FY2021 and 6M2022 respectively.

Notwithstanding the above, we also occasionally enter into hedging instruments to manage our residual foreign exchange risks. As at 30 June 2022, our Group has outstanding non-deliverable foreign currency option contracts in respect of RMB and Indian Rupee with notional amount of RMB175,000,000 and US\$8,000,000 respectively. As at 31 December 2021, our Group had outstanding non-deliverable foreign currency option contracts in respect of RMB, Indian Rupee and Thai Baht of RMB175,000,000, US\$10,000,000 and US\$4,000,000 respectively.

Our Group will continue to closely monitor the fluctuation of exchange rates in other currencies as well and consider hedging such foreign currencies should the need arise.

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

Please refer to the sections entitled “*Independent Auditor’s Report and Audited Consolidated Financial Statements of Comba Telecom Systems Holdings Limited and its Subsidiaries as at and for each of the Financial Years Ended 31 December 2019, 2020 and 2021*” and the “*Independent Review Report and Unaudited Interim Condensed Consolidated Financial Statements of Comba Telecom Systems Holdings Limited and its Subsidiaries as at and for the Six (6) Months Ended 30 June 2022*” as set out in Appendix A and Appendix B respectively to this Introductory Document for details of our Group’s accounting policies and changes in our accounting policies for the Track Record Period.

Our Group does not expect to change its accounting policies that will result in material adjustments to the disclosed financials.

TREND INFORMATION

Our Group developed the industry-leading multi-antenna common-calibre wave transmission technology platform as well as the AP antenna as part of our strategic collaboration with the main equipment vendors in response to their needs for 4G/5G integrated antenna solutions, and supplies innovative and trending 700MHz and 2.1GHz antenna products required for 5G NR construction. Such 5G technology development and the demand for our 5G products and services are not affected by the ongoing COVID-19 pandemic, and we expect demand for our products and services to grow in markets outside our core markets comprising the PRC, US, the European Union and Southeast Asia.

Our Group also plans to launch new products that are expected to enhance the price competitiveness of our Group, and this is expected to contribute favourably to the revenue of our Group. Our Group continues to focus on and invest in research and development of products and we expect our research development costs to remain generally stable.

While there are natural foreign exchange movement hedges for our sales in the PRC as our expenses are mostly incurred or committed in RMB, we expect to see increased foreign exchange exposure arising from our sales that are contracted in other currencies, including the USD which has appreciated against RMB over the last few months.

Save for the above, our Group does not expect any significant trends, uncertainties, demands, commitments, or events in production, sales and inventory, and in the costs and selling prices of products and services since 30 June 2022 that would cause any material effect on the net sales or revenues, profitability, liquidity or capital resources.

TELECOMMUNICATIONS EQUIPMENT INDUSTRY AND PROSPECTS

OVERVIEW OF THE TELECOMMUNICATIONS EQUIPMENT INDUSTRY

5G technology

5G is the fifth generation of cellular networks and it is up to 100 times faster than 4G. 5G technology is advancing societies, transforming industries and enhancing daily experiences through its faster connectivity speed, ultra-low latency, greater bandwidth and reduced energy use. It helps create a smarter, safer and more sustainable future.

The current wave of 5G is reshaping both the professional and personal lives of consumers by enabling new use cases like connective vehicles, augmented reality and enhanced video and gaming, and is way ahead of earlier technologies during times such as the 1G era which was defined by briefcase-sized phones, the 2G era during which saw a substantial growth in the demand for mobile services, the 3G era during whose hallmarks include pocket size mobile phones, SMS and mobile internet access. More recently, 4G was the pillar behind smartphones, app stores and YouTube.

Innovative green design and green manufacturing

In the face of increasingly severe global climate change, green growth and carbon emissions reduction have become a global consensus. As carbon emissions and socio-economic development are interrelated, countries worldwide prioritise achieving the carbon neutrality targets, requiring the restructuring of energy consumption across different industries.

5G-enabled technologies and connectivity, which empower the major verticals to digitalise and transform the way they operate, play an important role in combating climate change. With the mission to support net-zero goals, there will be an increase in demand from telecommunication operators for green, low-carbon, intelligent and highly efficient 5G networks with mobile antenna systems designed based on new architectures, solutions and technologies. These include high efficiency green antenna and improvements to be made to the base station's coverage under the same input power.

Rapid urbanisation and the shift towards a more sustainable living environment have resulted in smart cities ushering in a greener future for the planet. This can be made possible by highly efficient, embeddable antennas made specifically for smart living. Unlike other digital components, antenna performance is determined in the early stages of design.

As China adopts low-carbon environmental protection as a national strategy, there is an increase in demand from the three (3) largest telecommunication operators in China for more energy efficient green antennas and integrated high-power base stations to extend coverage. This has been made possible through design, material and process innovation, for instance, through the increase of coverage distance of traditional antennas in the low and medium frequency band under the same feed power.

There is also an increase in demand from telecommunication operators globally for low-carbon environmental protection antenna and low-cost network construction.

Base station antenna (BSA)

A base station antenna is a fundamental component in a wireless communication network. These antennas are base stations mounted on base station towers to provide cellular connectivity to users. These antennas are used to cover a single frequency band or multiple frequency bands and remain the mainstream configuration of network construction.

In China, the demand for 5G base station antennas is driven by the deployment of 5G medium-frequency network and stable demand from the three (3) largest telecommunication operators in China, which are China Mobile, China Telecom and China Unicorn.

The 5G wireless networks of the three (3) largest telecommunication operators in China adopt medium and low frequency collaborative networking. The demand for capacity enhancement and scenario coverage is driving the evolution of the intermediate frequency 1.8GHz & 2.1GHz 'golden spectrum' to higher level systems such as 8 Transmit 8 Receive. Multi spectrum, multi system, and co-construction and co-sharing have driven the development of base station antenna to the next level.

As the technical specifications of base station antenna continue to increase, the unit price of these products and the market capacity have grown steadily as a result.

The European and Asia-Pacific markets have also accelerated the deployment of 5G on a large scale, and the demand for 4G/5G integration base station antennas has increased in due to collaborative networking of low and mid band and deployment of sub-scenarios. Many countries in South America, Southeast Asia and Middle East, as well as India, which is the second most populous country in the world, are also actively preparing for 5G deployment and that is expected to drive a new wave of demand for 5G base station antennas. The main 4G/5G (8TR) integrated antenna has become the mainstream demand of 5G network construction of global operators.

Given the increasing focus on and demand for green technology, there is room for further upgrades of existing base station antennas, especially in the area of manufacturing green and low-carbon base station antennas.

Network system

The outlook for the international indoor coverage and Open RAN industry is positive and shared indoor wireless network coverage solutions have achieved significant growth in APAC, North America, South America and other regions.

The 5G series network system products include 5G extended base station, 5G high power base station, 5G high power repeater, X-DAS and E-Femto.

The 5G series network system products have progressed into 5G+ Smart Mining with an increasing focus on 5G smart construction sites, 5G smart energy, 5G smart healthcare, 5G smart education and 5G smart entertainment.

PROSPECTS

The development of mobile communication wireless networks has gained momentum in recent years, driven by an advancement of 5G technology and an increased emphasis on low carbon emission and environmental protection.

5G technology has been widely recognised to be the big leap in mobile and wireless communications as it, with its features including full coverage, low latency, high capacity and high reliability, helps enable the development of new business models and advanced applications and fosters business innovation in areas such as urban mobility, smart estates, industry 4.0 and consumer applications.

We expect to see continued strong demand for our products and services from operators constructing indoor 5G networks globally and our Group expects to seize more opportunities arising from the development of these indoor 5G networks by operators to promote in-depth integration with various industries.

The telecommunications equipment industry has faced several challenges since the outbreak of the global COVID-19 pandemic, which has disrupted work and social activities across the world. Despite this, the COVID-19 pandemic, during which many people worked from home, has also brought about an increased awareness of the critical role that the development of digital communication network plays in modern society. With 5G technology entering a new era, consumers stand to benefit from new applications that ride on 5G technology.

The stage of development of wireless networks in different parts of the world is very uneven, and countries seeking to upgrade their wireless networks to 5G are also expected to drive significant demand for network equipment and antenna feeder products in the next few years. Looking ahead, we expect to ride on our global network to increase our sales in other regions, as more countries advance their 5G development towards more extensive coverage and multiple commercial uses.

We also expect to ride on the growth in consumer and infrastructure spending in emerging markets, especially those with relatively young demographics but relatively low 5G network coverage. For instance, our Group has been able to grow our revenue consistently during the Track Record Period through our operator business in Laos. Based on publicly available information, Laos has a population of over seven (7) million and the median age in Laos is around 24.5 years old. In addition, it has a relatively low 5G network coverage outside the capital of Laos. We expect to ride on the favourable demographics and relatively low 5G network coverage of such emerging markets to grow our sales and market share in these markets.

In addition, an increased emphasis in low carbon environmental protection by corporations and government around the world, as well as the society at large, has prompted mobile communication network equipment users to upgrade their equipment and this is expected to drive demand for our green BSA and small cells.

We believe that through our leading position in the field of antennas and small cells, our first-mover advantage in Open RAN, and our focus on green antennas and emphasis on low carbon manufacturing processes, we are able to build on our industry-leading innovation capabilities, our extensive global network, and customer base to further grow our market presence globally.

HISTORY AND CORPORATE STRUCTURE

OVERVIEW

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2002 and we have an operating history of approximately 27 years as at the Latest Practicable Date, which started prior to the incorporation of our Company in 2002. We principally engage 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 through our subsidiaries.

KEY MILESTONES

A summary of our Group's key corporate milestones is set out below.

Year	Milestone
1995	<ul style="list-style-type: none">Mr. Fok Tung Ling and Mr. Zhang Yue Jun jointly established Comba in October 1995.
1996	<ul style="list-style-type: none">Expansion of activities covering Guangdong, Hainan and Liaoning.
1997	<ul style="list-style-type: none">Comba Telecom Systems (Guangzhou) Ltd. was formally established as a legal entity.
1998	<ul style="list-style-type: none">R&D and production base established in Guangzhou.Establishment of the Guangzhou Engineering Research Centre under the State Key Lab on Microwave and Digital Communications to carry out advanced technology research in conjunction with Tsinghua University in Beijing, China.
1999	<ul style="list-style-type: none">Certified ISO 9001 compliant in production processes.Business grew to cover most of the major provinces in China.
2000	<ul style="list-style-type: none">Annual revenues crossed the RMB100 million mark.
2001	<ul style="list-style-type: none">Launch of R&D projects for base station antennas.Annual revenues crossed the RMB450 million mark.
2002	<ul style="list-style-type: none">Launch of digital microwave projects.
2003	<ul style="list-style-type: none">Successful listing of our Company on the main board of the HKSE on 15 July 2003. Global headquarters was formally established in Hong Kong.Acquisition of majority stake in WaveLab, Inc., a US company specialising in digital microwave R&D.
2004	<ul style="list-style-type: none">Regional office of EMEA (Europe, Middle East & Africa) established in Stockholm, Sweden.Joint establishment of the RF Technology Research Laboratory with the Beijing University of Posts & Telecommunications.Annual revenue crossed the RMB1 billion mark.

Year	Milestone
2005	<ul style="list-style-type: none"> • Expansion of capabilities with the establishment of our Nanjing Research Institute and an R&D centre in Santa Clara, USA. • Launch of our Company's range of digital microwave systems.
2006	<ul style="list-style-type: none"> • Expansion into India with the establishment of a sales office in New Delhi. • Launch of our Company's multi-carrier power amplifier (MCPA) – one of the world's highest power density MCPA. • Establishment of the CALA (Caribbean and Latin America) regional office in Sao Paulo, Brazil. • Inauguration of new China headquarters in Science City, Guangzhou. • Mr. Fok Tung Ling, Chairman of our Company named "Hong Kong CEO of the Year" by CNBC APAC.
2007	<ul style="list-style-type: none"> • Certified ISO 14001 compliant in production process. • Introduction of new strategic product line – TD-SCDMA Remote Radio Unit, which is the 3G technology standard then adopted in the PRC. • Certified ISO 14001 compliant in production process.
2008	<ul style="list-style-type: none"> • Launch of Tower Bottom Solution (TBS), which was jointly developed by the R&D teams in China and USA to target the North America market. • Introduction of the telecommunications equipment industry's first dual-polarised variable electrical tilt smart antenna. • Implemented wireless solutions for over 20 venues of the Beijing Summer Olympic Games – including the supply of wireless in-building coverage solutions for both the Beijing National Stadium and Beijing National Aquatics Centre, also known as the "Bird's Nest" and the "Water Cube" respectively.
2009	<ul style="list-style-type: none"> • Completion of production and warehouse expansion project in Guangzhou. Production capacities increased by 150%. • RRU product portfolio expanded to include GSM, CDMA, WCDMA, TD-SCDMA and WiMAX models. • Expanded core equipment vendor relationships with accreditation from Alcatel Lucent, Nokia Siemens Networks and Ericsson.

Year	Milestone
2010	<ul style="list-style-type: none"> • Development of first enterprise Fetocell. • Wireless system implemented for the Shanghai World Expo. • Enhanced penetration into high-speed railway coverage solutions with the following major wins in China: <ul style="list-style-type: none"> o Expansion of manufacturing plant and research headquarters in Guangzhou in 2014 – following the burgeoning customer demands, in light of growing global demand and development of 4G in the PRC since end-2013, our Company was compelled to expand our production capacity. Hence, in 2014, our Company commenced production in our new manufacturing plant in Guangzhou, as well as expanded its research headquarters in Guangzhou Science City. o Winning national railway projects in 2010 – our Company scored our very first major 2G + 3G railway network coverage project by bringing home the Taiyuan-Zhongwei-Yinchuan railway project. In the same year, our Company was entrusted with providing wireless network solutions to the Armenian underground train systems. • Received financial awards for consecutive years from various publications including “Forbes Asia 200 Best Under a Billion” and Finance Asia’s “Asia’s Top Companies”.
2011	<ul style="list-style-type: none"> • Deployed LTE equipment for trials and rollouts for 4G network in APAC, Latin America & Middle East. • Deployed first high-speed railway solutions outside China. • Expanded offerings to include satellite solutions.
2012	<ul style="list-style-type: none"> • Signed a memorandum of understanding with China Mobile Research Institute for the joint development of Nanocell. • Launch of a newly self-developed small cell (IB-WAS) coverage system. • Became the 3rd largest MCPA supplier for major North American operators. • LTE antennas launched in the Latin America market.
2013	<ul style="list-style-type: none"> • Large-scale development of LTE and flooding orders for base station antennas resulting in increase of production capability. • Launch of quad-band MDAS for LTE. • Successful launch of TD-LTE small cell. • Launch of new generation of DAS in the North American market.

Year	Milestone
2014	<ul style="list-style-type: none"> • Launch of the 1st 5W IDAS device with high efficiency and high linearity. • Production line expansion in Guangzhou. • Launch of the 7th generation of miniaturised antenna and 2nd generation of Nanocell.
2015	<ul style="list-style-type: none"> • Became a member of the first presidium of China WIFI Industry Alliance.
2016	<ul style="list-style-type: none"> • Signed a strategic cooperation agreement with Ningbo Ditel Electronic Technology Co., Ltd, and made a foray into maritime VSAT communication and Internet-of-Vessels businesses. • Entered into a joint venture agreement with the Lao Government to gain access to the wireless telecommunications network market in Laos. • Won the Technological Grand Award at the 2016 Hong Kong Awards for Industries. • Jointly established research and development laboratory with Hong Kong Applied Science and Technology Research Institute for the R&D of smart cities. • Launch of new-generation ultra-wideband compact 4G antennas. • Launch of bi-directional RF amplifier for the public safety sector. • Major supplier of small cells solutions to China Mobile.
2017	<ul style="list-style-type: none"> • Awarded as Small-Cell Innovation of the Year Award. • Our Company was named as a Niche Player in Magic Quadrant for Small Cell Equipment by Garner IT Consulting Firm. • Received TESSCO One 2017 Innovation Award awarded by TESSCO Technologies, Inc. • Launched ScanViS – a series of computer vision AI solutions. • Officially included as a Partner of the China Mobile 5G Innovation Centre. • Wireless networks coverage solution for MTR South Island Line (East) in Hong Kong. • Signed group-level base station antenna agreement with Ooredoo Group. • Partnered with ACOM Investment Corporation to accelerate in-building wireless systems in Vietnam. • Provided emergency communications assistance for super typhoon Hato in Macau. • Our Company and the Laos Government hosted an inauguration conference cum work handover ceremony for the joint venture company, ETL.

Year	Milestone
2018	<ul style="list-style-type: none"> Implemented DAS solution for Grand Hyatt Hotel Rio de Janeiro in Brazil. Deployed a turnkey wireless solution for the longest and busiest highway tunnel system in Brazil. Deployed a full turnkey in-building wireless solution for “The Dubai Frame”, a new architectural landmark in Dubai. Received the Golden Prize at the 20th China Patent Award. Awarded the tender for the Communication Integrated General Contract project of Chengdu Metro Line 17 Phase I and Line 18 Phase I & II. Awarded the tender of 4G Picocell centralised procurement project (2018-2019) of China Mobile. Won the tender of MDAS centralised procurement project (2018-2019) by China Mobile. Provided the seamless wireless coverage for the underground extension of Bangkok Metro’s Blue Line. Launched a new type of 5G-oriented smart indoor coverage solutions. 5G massive MIMO antennas successfully deployed for trials globally. Launched ScanViS ID GateGuard, an all-in-one facial recognition and analytic solution.
	<ul style="list-style-type: none"> Awarded the tender of “4+4+8+8” Frequency-division Duplex + Time-division Duplex integrated antenna with independent RET centralised procurement project (2018-2019) by China Mobile.
	<ul style="list-style-type: none"> Launched the world’s first commercial use 5G Cloud Small Cell with China Mobile Research Institute and Intel.
	<ul style="list-style-type: none"> Our Company’s subsidiary ETL announced nationwide commercialisation of 4.5G network in Laos.
	<ul style="list-style-type: none"> Partnered with Parallel Wireless to deliver 4G & 5G Open vRAN Solutions.
	<ul style="list-style-type: none"> Participated in the Telecom Infra Project (TIP) Summit to share the latest Open RAN innovations with industry innovators.
	<ul style="list-style-type: none"> Awarded the tender of NB-IoT integrated Picocell centralised procurement project by China Mobile.
	<ul style="list-style-type: none"> Shortlisted for the “5G+ Industrial Internet Application Demonstration Park” by the Ministry of Industry and Information Technology of Guangdong Province with the Guangzhou Branch of China Mobile.
2019	

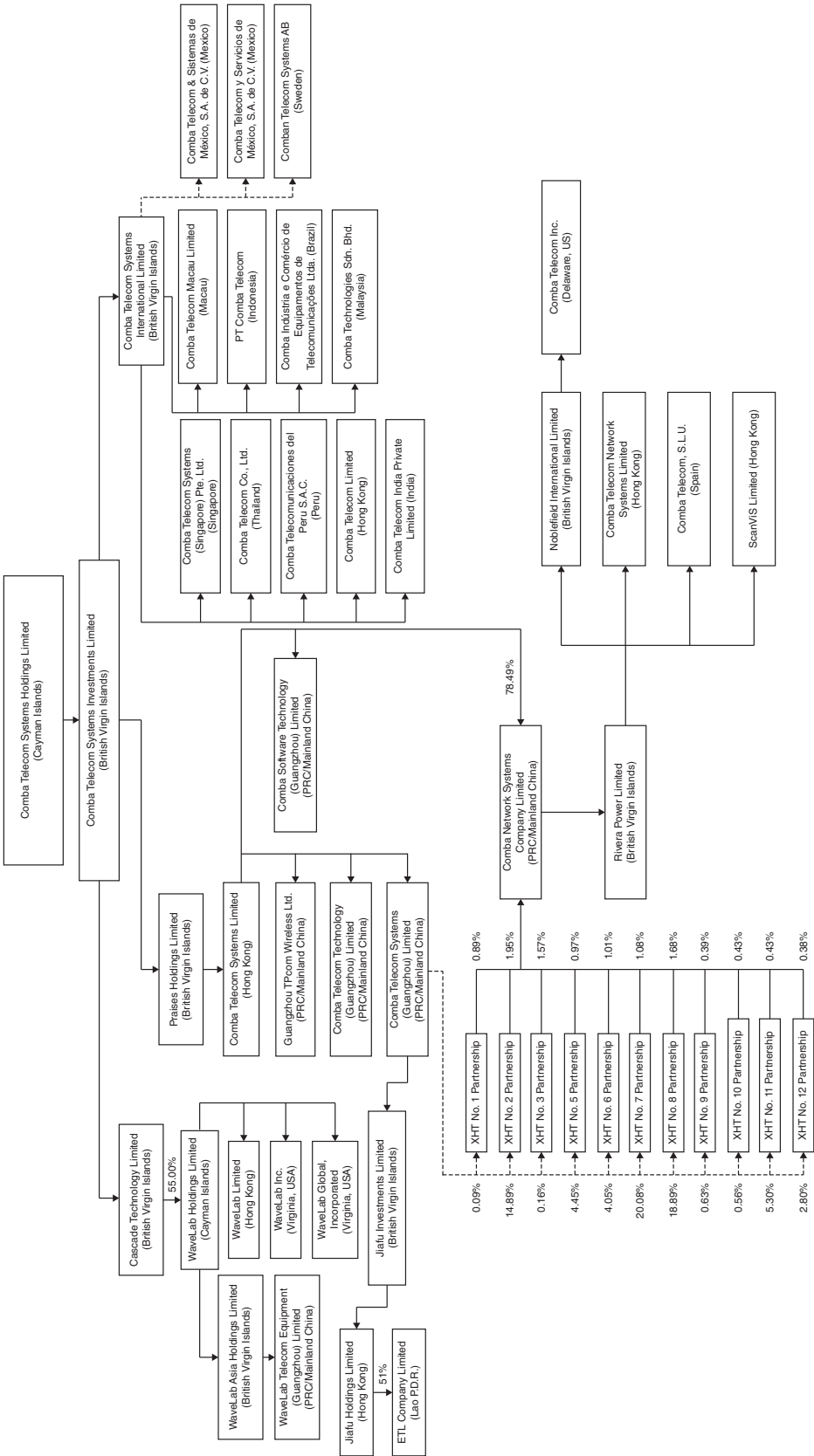
Year	Milestone
	<ul style="list-style-type: none"> Awarded the first prize in the Science and Technology Award 2019 by the Science and Technology of China Institute of Communications. Awarded tender by China Unicom's Antenna Products Open Market Direct Purchase Project. Collaborated with multinational networks and telecommunications company to provide 5G antenna equipment for European regions. Deployed facial recognition solution for fast and secure venue access control at Mobile World Congress (MWC) Barcelona. Provided high-density wireless solution for a major stadium in Brazil. Launched the world's first 5G highway tunnel wall-mounted antennas with China Union. Made a joint announcement with Guangdong Branch of China Telecom on the first national white-box 5G SA active indoor coverage solution for commercial use.
2020	<ul style="list-style-type: none"> Provided communication support for the mobile cabin hospital in Wugang Sports Centre in Wuhan, PRC. Comba Network assisted its partners in the debut of the world's first highly reliable 5G private network system for mining. The 5G antenna and filter production base in China-Singapore Guangzhou Knowledge City commenced operations. Comba Network was the first to obtain the Network Access Licence for 5G Cloud Small Cell in the telecommunications equipment industry. Ms. Huo Xinru, Executive Director and Senior Vice President our Group and President of Comba Telecom Systems International Limited, honoured at the Young Industrialist Awards of Hong Kong 2020. Awarded with the gold medal at the 21st China Patent Award. Introduced innovative antenna solutions and new products with 5G broad indoor coverage. Our Company's ScanViS access control solution was selected by China Mobile International for use in its data centre. Our Company's launched the systems, applications, and products (SAP) upgrade project, which received numerous awards, including the 2020 DingGe Awards. Commenced numerous Open RAN technology validation and trials with leading operators in Europe, MENA, APAC, Australia and more for promoting the development of Open RAN. Our Company was included in the Southbound Shenzhen-Hong Kong Stock Connect.

Year	Milestone
2021	<ul style="list-style-type: none"> • Our Company and the mobile arm of Hutchison Telecommunications Hong Kong Holdings Limited joined forces to enable 5G network in Hong Kong. • Our Company completed the installation of its 7 millionth base station antenna (BSA).
	<ul style="list-style-type: none"> • Our Group released the “Flex5 5G+ Industry Basic Network Platform Solution”.
	<ul style="list-style-type: none"> • Our Group continues to drive Open RAN transformation through the launch of new O-RU portfolio.
	<ul style="list-style-type: none"> • We were ranked among top three (3) DAS Suppliers globally by Omdia, a global research leader in the technology industry.
	<ul style="list-style-type: none"> • We were awarded with the Silver Award and Excellence Award at the 22nd China Patent Award.
	<ul style="list-style-type: none"> • Our Group released the 379mm slim ultra-wide multi-band antenna series.
	<ul style="list-style-type: none"> • Our Group expanded the RRU product portfolio that complied with the Telecom Infra Project (TIP) standards and regulations, and a total of nine (9) products have been launched on the TIP Exchange, a centralised marketplace where validated network products and solutions, resulting from previous work on integration testing and validation, are published.
	<ul style="list-style-type: none"> • We participated in the Mobile World Congress 2021 (virtual exhibition).
	<ul style="list-style-type: none"> • The HKSE granted approval to our Group to proceed with the Proposed Spin-off and Listing under Practice Note 15 of the Hong Kong Listing Rules.
	<ul style="list-style-type: none"> • We were admitted into the Guangzhou Higher Level Enterprise Institute Scheme.
	<ul style="list-style-type: none"> • We provided communication support to the rescue task force in Henan, China in the wake of the heavy rainstorm that occurred in Henan Province of China on 20 July 2021.
	<ul style="list-style-type: none"> • We won the bids for centralised antenna procurement projects of China Mobile, China Unicom and China Telecom.
2022	<ul style="list-style-type: none"> • Our product, SailaWave, won an accolade with its end-to-end wireless connectivity solutions at the iF Design Awards 2022, one of the most prestigious design awards in the world.
	<ul style="list-style-type: none"> • We took part in MWC Barcelona 2022, the world’s largest and most influential connectivity event held from 28 February 2022 to 3 March 2022 in Barcelona.
	<ul style="list-style-type: none"> • We completed an Open RAN deployment in the network of Turkcell, a telecommunications and technology services provider founded and headquartered in Turkey, to support the RAN architecture transformation of the Turkcell Group, starting from the first trial in Turkey.

Year	Milestone
	<ul style="list-style-type: none"> • We participated in the TIP ON Event 2022 held by Telecom Infra Project at TIP Community Lab established in Telkom University in Indonesia from 11 July 2022 to 12 July 2022. During the two-day event, our TIP-qualified Open RAN solutions were showcased to stakeholders from the open network ecosystem, including regulators, operators, industry players, and academia. • To support the low-carbon deployment of 5G networks, we launched a high-end 4G/5G (8TR) integrated BSA, which meets the capacity and coverage requirements, and has become the mainstream tower-top antenna solution for global 5G network construction. • We were selected by China Mobile to contribute to the rollout of one of the largest deployments of 5G distributed picocell, which involves 20,000 small cell base stations. We ranked first for its overall competitiveness in winning two (2) bid packages, including single-mode distributed picocell and dual-mode distributed picocell.

CORPORATE STRUCTURE

The following diagram illustrates our corporate structure with our Principal Subsidiaries⁽¹⁾:



Note:

(1) Unless specifically stated, the relationship between the entities is wholly-owned.

The following table sets out certain information on our Principal Subsidiaries as at the Latest Practicable Date:

Name	Country of Incorporation/ Constitution and Principal Place of Business	Principal Activities	Proportion of Ownership Interest/Voting Rights held by our Company
Comba Telecom Systems Investments Limited	British Virgin Islands	Investment holding	100.00%
Praises Holdings Limited	British Virgin Islands	Investment holding	100.00%
Comba Telecom Systems Limited (京信通信系统有限公司)	Hong Kong	Investment holding and trading of wireless telecommunications network system equipment	100.00%
Comba Telecom Systems (Guangzhou) Limited (京信通信系统(广州)有限公司) ⁽¹⁾	PRC/Mainland China	Sale of wireless telecommunications network system equipment and provision of related engineering services	100.00%
Comba Telecom Technology (Guangzhou) Limited (京信通信技术(广州)有限公司) ⁽¹⁾	PRC/Mainland China	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services	100.00%
Comba Network Systems Company Limited (京信网络系统股份有限公司) ⁽²⁾	PRC/Mainland China	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services	79.48%
Comba Software Technology (Guangzhou) Limited (京信软件科技(广州)有限公司) ⁽¹⁾	PRC/Mainland China	Provision of software technology services	100.00%
Guangzhou TPcom Wireless Ltd. (广州泰普无线通信设备有限公司) ⁽¹⁾	PRC/Mainland China	Trading of wireless telecommunications network system equipment and provision of related engineering services	100.00%
Cascade Technology Limited	British Virgin Islands	Investment holding	100.00%
WaveLab Holdings Limited	Cayman Islands	Investment holding	55.00%
WaveLab, Inc.	Commonwealth of Virginia/ United States of America	Research and development of digital microwave system equipment	55.00%
WAVELAB GLOBAL, Incorporated	Commonwealth of Virginia/ United States of America	Trading of digital microwave system equipment	55.00%
WaveLab Asia Holdings Limited	British Virgin Islands	Investment holding	55.00%
WaveLab Telecom Equipment (Guangzhou) Limited (波达通信设备(广州)有限公司) ⁽¹⁾	PRC/Mainland China	Manufacture and sale of digital microwave system equipment	55.00%

Name	Country of Incorporation/ Constitution and Principal Place of Business	Principal Activities	Proportion of Ownership Interest/Voting Rights held by our Company
WaveLab Limited (波达有限公司)	Hong Kong	Dormant	55.00%
Comba Telecom Systems International Limited	British Virgin Islands	Investment holding	100.00%
Comba Telecom Limited	Hong Kong	Trading of wireless telecommunications network enhancement system equipment and provision of technical support and repairing services	100.00%
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	Provision of marketing services and trading of wireless telecommunications network system equipment and provision of related engineering services	100.00%
Comba Telecom Co., Ltd.	Thailand	Trading of wireless telecommunications network system equipment and provision of related engineering services	100.00%
Comban Telecom Systems AB	Sweden	Provision of marketing services and trading of wireless telecommunications network system equipment	100.00%
Noblefield International Limited	British Virgin Islands	Investment holding	79.48%
Comba Telecom Inc.	State of Delaware/United States of America	Trading of wireless telecommunications network system equipment	79.48%
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	Production and assembling and trading of wireless telecommunications network system equipment	100.00%
Comba Telecom India Private Limited	India	Trading of wireless telecommunications network system equipment	100.00%
Comba Telecom Macau Limited (京信通信澳门有限公司)	Macau	Trading of wireless telecommunications network system equipment and provision of related engineering services	100.00%
PT. Comba Telecom	Indonesia	Engaging in other management consulting activities	100.00%
Comba Telecom & Sistemas de México, S.A. de C.V.	Mexico	Trading of wireless telecommunications network system equipment and provision of related engineering services	100.00%

Name	Country of Incorporation/ Constitution and Principal Place of Business	Principal Activities	Proportion of Ownership Interest/Voting Rights held by our Company
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	Provision of general and engineering services	100.00%
Comba Telecom, S.L.U.	Spain	Trading of wireless telecommunications network system equipment	79.48%
Comba Technologies Sdn. Bhd.	Malaysia	Trading of wireless telecommunications network system equipment and provision of related engineering services	100.00%
Comba Telecomunicaciones del Peru S.A.C.	Peru	Trading of wireless telecommunications network system equipment and provision of related engineering services	100.00%
Jiafu Investments Limited (迦福投资有限公司)	British Virgin Islands	Investment holding	100.00%
Jiafu Holdings Limited (迦福控股有限公司)	Hong Kong	Investment holding	100.00%
ETL Company Limited	Lao People's Democratic Republic	Provision of operator telecommunication services and their value-added services	51.00%
Rivera Power Limited	British Virgin Islands	Investment holding	79.48%
Comba Telecom Network Systems Limited (京信通信网络系统有限公司)	Hong Kong	Trading of wireless telecommunications network system equipment	79.48%
ScanViS Limited	Hong Kong	Provision of hardware and software total solutions and services	79.48%
Xin Han Tong No. 1 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通一号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 1 Partnership”)	PRC/Mainland China	Investment holding	0.09%
Xin Han Tong No. 2 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通二号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 2 Partnership”)	PRC/Mainland China	Investment holding	14.89%

Name	Country of Incorporation/ Constitution and Principal Place of Business	Principal Activities	Proportion of Ownership Interest/Voting Rights held by our Company
Xin Han Tong No. 3 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通三号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 3 Partnership”)	PRC/Mainland China	Investment holding	0.16%
Xin Han Tong No. 5 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通五号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 5 Partnership”)	PRC/Mainland China	Investment holding	4.45%
Xin Han Tong No. 6 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通六号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 6 Partnership”)	PRC/Mainland China	Investment holding	4.05%
Xin Han Tong No. 7 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通七号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 7 Partnership”)	PRC/Mainland China	Investment holding	20.08%
Xin Han Tong No. 8 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通八号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 8 Partnership”)	PRC/Mainland China	Investment holding	18.89%
Xin Han Tong No. 9 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通九号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 9 Partnership”)	PRC/Mainland China	Investment holding	0.63%
Xin Han Tong No. 10 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通十号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“XHT No. 10 Partnership”)	PRC/Mainland China	Investment holding	0.56%

Name	Country of Incorporation/ Constitution and Principal Place of Business	Principal Activities	Proportion of Ownership Interest/Voting Rights held by our Company
Xin Han Tong No. 11 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通十一号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“ XHT No. 11 Partnership ”)	PRC/Mainland China	Investment holding	5.30%
Xin Han Tong No. 12 Enterprise Management (Zhuhai) Partnership (Limited Partnership) (鑫瀚通十二号企业管理(珠海)合伙企业(有限合伙)) ⁽³⁾ (“ XHT No. 12 Partnership ”)	PRC/Mainland China	Investment holding	2.80%

Notes:

- (1) These are wholly foreign-owned enterprises under PRC law.
- (2) This is a joint stock company limited by shares under PRC law.
- (3) These are limited partnerships registered under PRC law, accounted for as subsidiaries of our Group even though our Group has less than 50% equity interest in these companies based on the factors explained in note 2 of the consolidated financial statements set out in Appendix A to this Introductory Document.

The list of principal subsidiaries set out in the table above are entities whose total assets, profit/losses before tax and revenue contribute to more than 5% of the total assets, profit/losses before tax and revenue (as the case may be) of our Group for FY2019, FY2020 or FY2021, and/or are otherwise significant to the business operations of our Group.

BUSINESS

OUR COMPANY

Our Group is a global leading wireless solutions provider with our own R&D facilities, manufacturing base, and sales and service teams. We have a geographically diverse customer base of over 1300 customers globally. Our customer base includes major telecommunication operators such as Vodafone, Ooredoo, Airtel, Telenor, China Mobile, China Telecom, China Tower and China Unicom as well as other major global telecommunication equipment providers. We own over 5,500 patents globally, including approximately 900 patents under application. Leading through innovative technology, we offer a comprehensive suite of products and services including base station antennas and subsystems, network products, services, and wireless transmission products to our global customers.

Our Company has also received numerous industry and financial recognitions of its performance and standing, which include the Gold Prize at the China Patent Award by National Intellectual Property Administration (in 2020), CIO Review Top 10 Wireless Technology Solution Company (in 2020), the Industry Outstanding Leadership Award in 5G Small Cell by Posts and Telecom Press (in 2019) and the “Top 100 Innovative Enterprises in Mainland China” ranking by Clarivate Analytics (in 2018).

We have established our R&D headquarters based in Guangzhou Science City, which covers an area of approximately 35,000 sq m, and own approximately 5,500 patents (including approximately 900 patents under application) globally. Our global manufacturing base, located in Guangzhou Economic and Technological Development Zone, covers an area of approximately 80,000 sq m. Our 5G antenna and filter manufacturing base, located in China-Singapore Guangzhou Knowledge City, covers an area of approximately 20,000 sq m. We have a total of 31 production lines manufacturing products such as modules, Repeaters, antennas, and microwave products, and produce an average of approximately one (1) million pieces of product per year.

We have established more than 30 offices in China and more than 10 overseas offices worldwide – across all continents, including APAC, Europe, North America, South America, Middle East and more, providing products and services in more than 100 countries and regions. Through our direct offices and distribution network, customers are assured of rapid support at all times.

We have been included into the Hang Seng Composite SmallCap Index and Hang Seng Composite Industry Index – Information Technology since September 2020.

OUR MISSION

Our mission is to be a leader in innovation and development of wireless and information communications systems. We strive to supply customers with superior total wireless solutions and services.

OUR PRODUCTS AND SERVICES

Our core products portfolio includes base station antennas and subsystems and network products (DAS, small cells, Repeater, RRU, etc.) and we offer turnkey solutions for indoor and outdoor 2G/3G/4G/Wifi/5G to our global customers. Our range of services includes consultation, network design, optimisation, and commissioning. Collectively, this enables us to supply our customers with end-to-end wireless solutions all over the world, including shopping malls, airports, sports stadiums, public service buildings, and telecom operator headquarters. We strive to develop innovative technology products for mobile operators and enterprises to enhance and extend their business value.

In addition to our core business of supplying operators and industries with ubiquitous and high-capacity wireless networks, we are constantly reinventing ourselves and bringing new value-added solutions for the smart city and IoT era, among others. We offer a range of Open RAN products for the Open RAN ecosystem and bring ScanViS computer vision AI solutions to support smart city development and AGV intelligent vehicles and solutions to support factory intelligent chemical applications.

Base Station Antennas and Subsystems

In particular, our Group mainly supplies new 700MHz/900MHz low frequency band and 1.8/2.1/2.6/3.5GHz intermediate frequency band GHz antenna products and a combination of multi-band shared antenna products required for 5G NR construction, and developed the industry-leading multi-antenna common-calibre wave transmission technology platform as well as the AP antenna in strategic cooperation with the main equipment vendors in response to the 4G/5G integrated antenna requirements for overseas 5G network construction demands.

Operators around the world have paid great attention to the concepts of low carbon and environmental protection. Given the pressing demands for low-cost and high-efficiency network construction, we have launched the “green and innovative antenna and subsystem solution” with lower loss rates and higher efficiency by promoting innovation in terms of design, materials and manufacturing processes. Operators should conserve around 18 million kWh of electricity annually per 10,000 of base stations, representing an 18,000-tonne reduction in carbon emissions. We expect that energy-saving and low-carbon products with low consumption will gradually become mainstream.

Network Products

We have a wide range of network products, which includes the following:

(a) Small cells

We are the pioneer of small cells that possess the fully independent R&D ability in software and hardware with general agreed-upon specifications for 4G/5G access network. We have diversified products with the deep coverage capacities covering the entirely scenario-based high-power base sites, micro base sites, pico sites, Femto sites and the co-constructing and sharing of indoor coverage DAS products and Open RAN products of mobile telecommunication. Our Group also developed the industry's first 5G X-DAS digital distribution system that adopts an innovative system structure with combined use of optical fibres and feeder cables, as well as the innovative E-Femto Solution with coverage in elevators, both of which have significantly enhanced the competitiveness of the scenario-based indoor coverage products.

(b) 5G fundamental network platform solutions for 5G industry applications

In respect of 5G vertical industries, we provide fundamental networks and platform solutions catering to the specific needs and applications of the target industry, promote the application and implementation of 5G in vertical industries such as industrial, mining, medical and education sectors and empower the intelligent upgrading of the telecommunications equipment industry.

We also provide industry-leading products such as ultra-lightweight 5G RAN Solution and 5G Cloud Small Cell Solution under “OneChip”, and in 2021, we launched the first-of-its-kind 2.6Hz, 700MHz intrinsically safe 5G base station, commercially available in the specialised 5G network market for coal mines.

(c) Remote radio unit (“**RRU**”) products

Leveraging on years of extensive experience in the design, development and deployment of radio frequency related products of mobile telecommunication, we have launched the standardised and platform-based high-power RRU product series, which has the advantage of supporting advanced technologies such as multi-carrier and multi-mode, large bandwidth and high efficiency. This product series adopts ORAN Alliance’s fronthaul protocol and thereby fulfils inter-connection and compatibility with the globally advanced manufacturers of base-band.

We also provide the leading multi-mode Open RAN RRU that adopts Open RAN dual-frequency and tri-frequency design with industry-leading technical indicators, thereby continuing to lead the technological innovation of the industry.

Services

We provide mobile communication network product development, planning and design, engineering construction, project management, network maintenance, optimisation and other comprehensive, professional, full-cycle services, for operators to reduce the cost of network construction and maintenance, improve the overall service efficiency. At the same time, with the continuous deepening of the construction of smart city, we will cooperate with industry customers in the field of smart park, campus, fire protection and other in-depth exploration and cooperation. In particular, we provide:

(a) Distributed Antennas System (DAS) network design

DAS is still the most effective and reliable system that provides in-building wireless coverage. Indoor wireless connectivity is critical as people spend most of their time either at home, inside offices or enterprise locations. In today’s day and age, wireless networks must carry not only voice traffic, but large volumes of data traffic due to proliferation of smart phones and devices. Therefore, the system design of DAS has become increasingly complex to meet such demands and high quality is required in order to achieve high throughput.

Our designs also include small cells and Wi-Fi solutions. Small cell solutions are suited for small and medium enterprises to provide coverage and capacity. Wi-Fi solutions serve to offload the network traffic in hotspot areas. Hence, we are capable of providing a total solution for wireless network coverage.

In addition, we use professional in-building software design tool to perform the designs and generate reports. Coverage performance can be guaranteed to meet the KPI through coverage prediction plots.

With our global experiences in wireless network system design, technologies and products, we are capable of providing professional services beyond our customers’ expectations.

(b) Maintenance services

Network management ensures that all network elements perform optimally with minimum service disruption for our customers. Our maintenance services include remote monitoring, routine maintenance and downtime repair to ensure minimum service disruption to our valuable customers. Given consideration on the different circumstances, our technicians have the skills and materials needed to repair faulty modules and restore optimal operation within a shortest possible time span.

(c) Network optimisation

Radio network optimisation is performed to improve the performance of the network with existing resources. The goal is to better utilise existing network resources, solve existing and potential problems and identify possible solutions for future planning. Through radio network optimisation, the service quality and resources usage of the network are greatly improved to achieve a balance between coverage, capacity and quality.

Due to the mobility of subscribers and the complexity of radio propagation, most of the network problems are caused by increasing subscribers and the changing radio environment. Radio network optimisation is a continuous process that is required as the network evolves.

We offer the following 2G, 3G, 4G and 5G network optimisation activities to ensure that a network's performance and quality factors are at their best, thereby maximising customer satisfaction and revenue potential: (i) Network Performance Statistics Analysis (Network Audit) and Optimisation; (ii) Network Parameter Audit and Optimisation; (iii) Hardware Performance Optimisation; (iv) Data Servicer Analysis, Test Evaluation and Optimisation; (v) Benchmarking and Drive Test; (vi) Frequency/Scrambling Code Planning; and (vii) Radio Network Interference Analysis.

SUPPLY CHAIN, MANUFACTURING AND QUALITY ASSURANCE

We view the suppliers we work with as key partners in our product development process, and aim to leverage our partners' industry expertise to ensure that the products we produce meet our strict quality standards.

Supply Chain

Our Group has in place a sound procurement management system, and our procurement process is carried out strictly in compliance with the Bidding Law of the PRC and other procurement related laws and regulations. Our Group has established supplier acceptance, performance appraisal and exit mechanisms, through which the regulated management of key processes in the supply chain such as the placement of purchase orders, the entry into contracts, product acceptance and the settlement of payments are achieved.

Our Group implements a comprehensive certification of its newly introduced suppliers, which includes certification of sustainable development system. Our Group regards sustainable development as one of the basic conditions and requirements in establishing a working relationship with our suppliers and we assess our suppliers' capability and level of compliance with laws and regulations and sustainable development agreements. Suppliers are required to carry out business on the basis that they have complied with applicable laws and regulations that meet the requirements under sustainable development agreements. Our Group has entered into the Agreement of Corporate Social Responsibility (《企业社会责任协定》) with our material suppliers to constrain and regulate their code of conduct on aspects such as integrity and legal compliance, human rights, labour standards, health and safety, environment and prohibited commercial transactions, which is a criteria that will be factored in supplier certification, audit and performance assessment. As of the date of this Introductory Document, more than 561 suppliers have signed the agreement.

The results of supplier performance assessment are conveyed to the management of the suppliers to promote their sustained improvement. Suppliers are subject to annual comprehensive assessment based on various factors such as their business volume, daily assessment, quality performance, RoHS risk, environment and safety. Over 63 suppliers have been selected for on-site audit as of the date of this Introductory Document. Suppliers with excellent performance

are entitled to increase purchase percentage on the same conditions and provided with priority in terms of business cooperation. Suppliers with a poor grade in performance assessment are provided with relevant training and coaching, so as to urge suppliers to regard corporate social responsibility as a key factor in terms of the production process and the products produced, and integrate it into their business decision making and daily operation, thus establishing an effective management system.

Our Group attaches great importance to the issue of conflict minerals and we will not purchase or support the utilisation of conflict minerals. All suppliers are required not to purchase conflict minerals and their sub-suppliers are also subject to similar requirements. Our Group identifies the material lists and supplier lists relating to conflict minerals in accordance with the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises for Due Diligence of Conflict Minerals (《OECD冲突矿物尽职调查指南》) and adopts conflict mineral questionnaire (CMRT Form) under the Global Conflict Free Sourcing Initiative (全球无冲突采购倡议) (CFSI) to carry out due diligence and analysis on 90% of our suppliers.

Our Group has put in place incentive measures for suppliers whose products supplied or services rendered were outstanding. These measures include increasing the proportion of down payment and making priority payment to them. At the same time, we also take disciplinary measures such as urging improvement and restricting procurement in respect of suppliers who fail to meet our quality standards. For suppliers who have committed any misconduct, our Group will take disciplinary actions such as downgrading their financial ratings, adjusting share of procurement from them and restricting and prohibiting procurement, so as to gradually enhance the suppliers' awareness of contract performance, and promote the suppliers' honest cooperation.

Our Group also attaches importance to environmental risks. For the acceptance of suppliers, our Group collects the RoHS testing qualified report from suppliers and formulates a period for the renewal of such report, in order to carry out regular monitoring on suppliers' results of RoHS testing, thereby promoting the use of environmentally friendly materials by suppliers. Over 361 renewed RoHS testing qualified reports have been collected as at the date of this Introductory Document.

Manufacturing

The manufacturing process for our antenna and network products consists of six (6) main processes: (a) preparation of production parts; (b) machine assembly; (c) machine debugging; (d) machine testing; (e) finished product packaging and labelling; and finally, (f) warehouse entry. The manufacturing process for the antenna products and the network products differs at specific stages.

The diagram below sets out a summary of the manufacturing process for our antenna and network products:



Preparation of production parts

For the antenna products, this stage involves automated terminal assembly, automated cable cutting, automated welding of main feeder and automated welding of the radiating element.

For the network products, prior to machine assembly, there will be a stage of module production which involves the module surface mount technology and module tuning test. The modules will undergo socket welding and warehouse entry.

Machine assembly and machine debugging

Whole machines will then be assembled and debugged at this stage.

For network products, there is an additional procedure of machine ageing and machine tuning.

Machine testing

For our antenna products, we also conduct automatic dispensing, intermodulation testing, and standing wave isolation testing prior to packaging.

Finished product packaging and labelling, and warehouse entry.

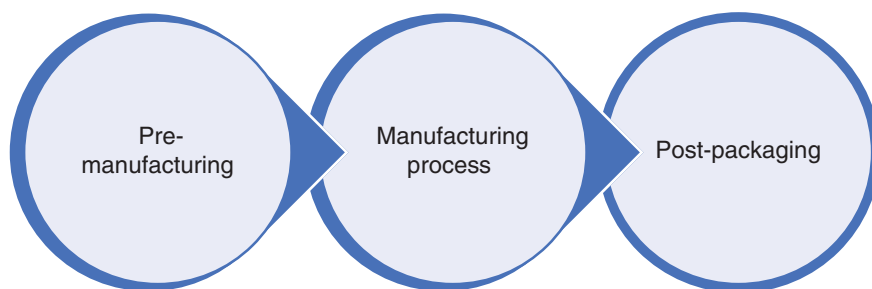
After a comprehensive process of quality control, the antenna and network products are packaged under the relevant trademarks.

Following packaging, we conduct further rounds of quality inspection before we finally ship our products. This will be further elaborated in the subsequent section entitled “*Quality Assurance*”.

Quality Assurance

We have a comprehensive quality control system at every stage of the manufacturing process.

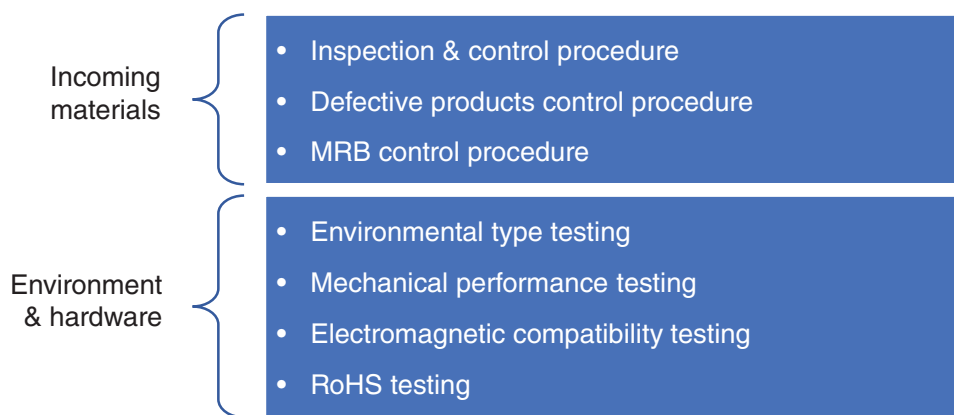
The diagram below sets out an overview of our quality control process for our antenna and network products:



Pre-manufacturing

For the antenna products, prior to the manufacturing process, the quality control procedure focuses mainly on ensuring that the appearance and key characteristics of the incoming materials comply with the inspection requirements.

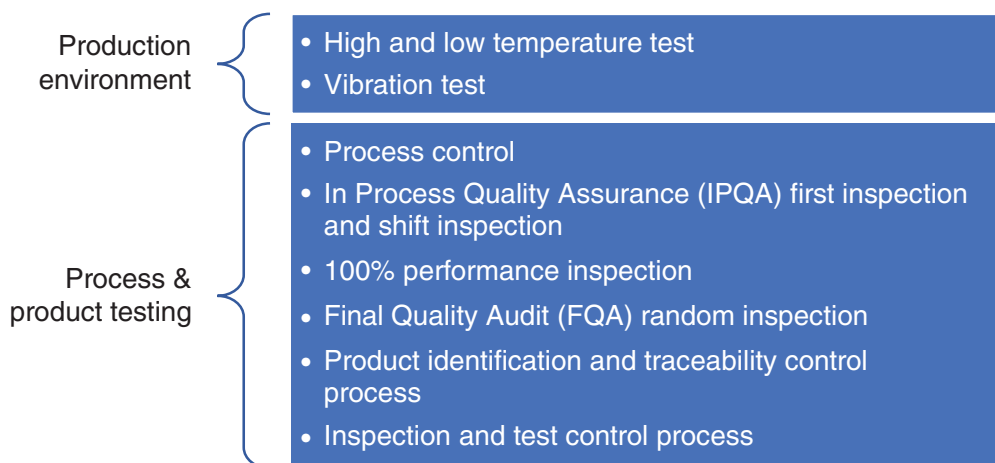
For the network products, we conduct a suite of different tests and/or inspections encompassing the following aspects:



Manufacturing process

For our antenna products, we have in place procedures aimed at ensuring the quality of assembly, solder paste, solder paste printing, label sticking, appearance, soldering, and label quality.

For our network products, the quality control procedure at this stage can likewise be understood in the following bifaceted manner:



Post-packaging

We subject our products to the final rounds of testing and inspections before we ship them to our customers.

For our antenna products, we focus on the protection of the products during the delivery process. For instance, we have implemented inspection procedures to ensure that there are no broken packages or damaged cartoons.

PRODUCTION FACILITIES AND CAPACITY

As at the Latest Practicable Date, we have (i) a manufacturing base in Guangzhou Economic and Technological Development Zone and (ii) a 5G antenna and filter manufacturing base in China-Singapore Guangzhou Knowledge City.

The following table sets out information of our capacity and utilisation rates of our factories for FY2019, FY2020, FY2021 and 6M2022:

Production Facility	Location of Production Facility	Products Produced	Number of Production Lines (as of 30 June 2022)	Estimated Technical Capacity (Pieces per Year)				Actual Production (Pieces per Year)				Utilisation Rate (%)			
				FY2019	FY2020	FY2021	6M2022	FY2019	FY2020	FY2021	6M2022	FY2019	FY2020	FY2021	6M2022
Manufacturing base	No. 6 Jinbi Road, Guangzhou Economic and Technological Development Zone, Guangzhou, PRC	Base station antennas and subsystems	16	884,104	735,462	892,180	462,739	636,555	367,731	758,353	370,191	72	50	85	80
		Network products		380,500	311,000	315,500	102,200	322,101	217,555	240,766	86,133	85	70	76	84
5G antenna and filter manufacturing base	No. 33, Phoenix 5 Road, China-Singapore Guangzhou Knowledge City, Guangzhou, PRC	5G-AAS products	2	249,014	326,084	324,769	143,049	87,155	228,259	233,834	104,426	35	70	72	73
Total			31	1,513,618	1,372,546	1,532,449	707,988	1,045,811	813,545	1,232,953	560,750	69	59	80	79

Maintenance of Machinery and Equipment

Our Group endeavours to reduce our negative impact on the environment and natural resources by ensuring that our products are of high quality, which would reduce the repair rate of products and reported damage rate of machines we produce. Our Group has implemented a flexible layout and upgraded our intelligent manufacturing equipment in our manufacturing facilities during the Track Record Period. All pieces of equipment have been connected to optimise the intelligent deployment in the life cycle of products so as to improve operation efficiency of products, reduce the repair rate of our products in the market, and increase the useful life of the equipment produced.

INVENTORY MANAGEMENT

Our Group is principally engaged in the R&D, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services. Since the technology develops rapidly in the telecommunications equipment industry, our Group's inventories are subject to significant risk of obsolescence and significant management's judgements and estimates were involved in determining the provisions against obsolete and slow-moving inventories.

Our Group reviews the condition of our inventories at the end of each reporting period and makes provisions against obsolete and slow-moving inventory items which are identified to be no longer suitable for sale or use based on sales forecasts. Such sales forecasts are prepared based on agreements or orders on hand and estimated sales in the foreseeable future based on historical experiences with our customers and current market conditions of the telecommunications equipment industry. Our management estimates the net realisable value of those obsolete and slow-moving inventories based primarily on the latest invoice prices and current market conditions. The estimation is reassessed at the end of each reporting period. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

Our average inventory turnover days and provision for inventory obsolescence for FY2019, FY2020, FY2021 and 6M2022 are set out below:

	FY2019	FY2020	FY2021	6M2022
Average inventory turnover days ⁽¹⁾	114	125	108	114
Provision for inventory obsolescence (HK\$ million)	122	84	232	0 ⁽²⁾

Notes:

- (1) The average inventory turnover days is computed based on the formula (average of beginning and ending inventory balance/cost of sales) x 365 days for FY2019, FY2020 and FY2021, and (average of beginning and ending inventory balance/cost of sales) x 182.5 days for 6M2022.
- (2) As the Company has made provision on the inventory exposed to the risk of wide transition from 3G/4G to 5G in FY2021, there was nil provision for inventory obsolescence in 6M2022.

The loss on inventory obsolescence as a percentage of total revenue of our Company was 3.9%, 1.7% and 2.1% in FY2021, FY2020 and FY2019 respectively. As our Company's loss on inventory obsolescence as a percentage of our Company's total revenue was less than 5%, our Group is of the view that it did not have a material adverse impact on our Group's business operations and/or financials.

SALES AND MARKETING

Our sales and marketing activities are conducted by our sales and marketing team comprising 1,618 staff members as of 30 June 2022. Our sales and marketing team is primarily responsible for developing our business by acquiring new customers as well as managing existing customer relationships through service support and the provision of after-sales services.

The three (3) major domestic telecommunications operators in Mainland China (namely China Telecom, China Unicom and China Mobile) will continue to deploy low and medium-band network construction in respect of 5G macro cells to promote sustainable development with multiple spectrums and modes through co-construction and sharing, hence raising the technological entry barrier of their products on a continuous basis. In response to China's low-carbon and environmental protection strategy and the low-cost network construction philosophy of the operators, our Group has developed the low-loss high-efficiency green antenna and integrated high-power cell remote coverage solution, and achieved major technological breakthroughs and completed the product development through our R&D investments. Leveraging our leading product competitiveness and comprehensive strengths in services, our Group has successively won the bids for antenna product projects from certain major telecom operators in Mainland China and secured considerable market share since the second half of 2021. Our Group is also planning for and working towards the centralised procurement bidding by major telecom operators in the PRC for antenna products in the next few years. In respect of broad indoor coverage, large-scale construction projects have been launched by domestic telecommunications operators successively. With the momentum of upsurge in the number of construction projects in 2022, it is believed that the total number of projects will grow at a faster pace in 2023. Our Group's active indoor coverage network and equipment products and passive indoor coverage antenna and subsystem products achieved satisfactory results in the centralised procurement projects. Our Group will continue to give full rein to our technological R&D strengths which were developed over many years. We will also continue to provide our customers with comprehensive support for our indoor coverage business.

Our Group's international marketing platform actively seeks to expand our presence in overseas markets by exploring customer demands, developing the target markets, developing new products and maintaining competitiveness of our products. Our Group will continue the steady cooperation with international mobile operators and leading global telecom core equipment manufacturers for network construction in key regions. Apart from offering advanced 5G application solutions to customers globally, we will tap into the demands for 4G massive network construction in various countries or regions in the world with imbalanced network development, so as to continually strengthen our position in the global market. Meanwhile, our 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.

The following sets out a breakdown of our revenue derived from the sale of products under our trademarks and third-party labels for FY2019, FY2020, FY2021 and 6M2022:

Revenue	FY2019		FY2020		FY2021		6M2022	
	HK\$ million	%	HK\$ million	%	HK\$ million	%	HK\$ million	%
Our trademarks	5,026	87	4,107	81.2	5,098	86.8	2,533	83.2
Original equipment manufacturer (OEM)	754	13	950	18.8	772	13.2	510	16.8
Total	5,780	100	5,057	100	5,870	100	3,043	100

MAJOR CUSTOMERS

We have a geographically diverse customer base of over 1,315 customers globally. While the majority of our revenue is derived from our customers in the PRC, our revenue is also generated from our customers in other countries/areas in APAC, the US, European Union and Middle East etc.

We also enter into long-term contracts with certain customers, which typically have a contract term from 36 to 60 months.

The following table sets out the customers which accounted for 5.0% or more of our Group's total revenue from sales in each of FY2019, FY2020, FY2021 and 6M2022:

Customer	As a % of our Group's Total Revenue			
	FY2019	FY2020	FY2021	6M2022
China Mobile Communications Corporation (中国移动通信集团有限公司)	30.0	20.9	25.9	27.8
China United Network Communications Group Company Limited (中国联合网络通信集团有限公司)	14.7	9.0	8.4	13.2
China Telecommunications Corporation (中国电信集团有限公司)	10.4	9.8	9.8	6.8
China Tower Corporation Limited (中国铁塔股份有限公司)	5.1	8.8	7.3	5.3

We are of the opinion that we will be able to control the risk of reliance, and our reliance on our major customers would not adversely affect our business operations and financial performance and would not impact on our Group's sustainability based on the following reasons:

- (i) our Group has established stable business relationships with our major customers due to long working relationships as well as the quality of the products and services supplied to these major customers;
- (ii) our Group continues to work with other existing customers to grow our businesses;
- (iii) our Group's strategic planning to enter into new markets and further expand our operations in existing markets (apart from the PRC);
- (iv) the ability of our Group to secure new customers; and
- (v) the stable and growing demand for our Group's products and services in view of developments in the telecommunications industry, including the implementation of 5G network.

To the best of our Directors' knowledge, as at the Latest Practicable Date, our Directors are not aware of any information or arrangement which would lead to a cessation or termination of our relationship with any of our major customers.

As at the Latest Practicable Date, none of our Directors, Executive Officers or substantial shareholders or their respective associates has any interest, direct or indirect, in, and/or is involved in the management of, any of our major customers.

To the best of our Directors' knowledge and belief, there are no arrangements or understanding with any customers pursuant to which any of our Directors and Executive Officers were appointed.

MAJOR SUPPLIERS

None of our suppliers accounted for 5.0% or more of our Group's total purchases in any of FY2019, FY2020, FY2021 and 6M2022.

We have entered into long-term supply agreements for the supply of certain important materials such as cables, connectors, sheet metal parts, and die castings.

As at the Latest Practicable Date, none of our Directors, Executive Officers or substantial shareholders or their respective associates has any interest, direct or indirect, in, and/or is involved in the management of, any of our suppliers.

To the best of our Directors' knowledge and belief, there are no arrangements or understanding with any suppliers pursuant to which any of our Directors and Executive Officers was appointed.

CREDIT MANAGEMENT

Credit Terms to Our Customers

Our Group's trading terms with our customers are mainly on credit. The credit period is generally three (3) months, except for certain customers which are granted with a longer credit term depending on factors including, but not limited to, the customer's credit rating, payment history and length of their relationship with our Group. 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 six (6) to 12 months after sale. The credit terms for major customers are reviewed regularly by senior management.

Our Group trades only with recognised and creditworthy third parties. It is our Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Our Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by our senior management.

Our average trade receivables turnover days for FY2019, FY2020, FY2021 and 6M2022 are set out below:

	FY2019	FY2020	FY2021	6M2022
Average trade receivables turnover days ⁽¹⁾	258	293	257	248

Note:

- (1) The average trade receivables turnover days is computed based on the formula (average of beginning and ending trade receivable balance/revenue from sales) x 365 days for FY2019, FY2020 and FY2021, and (average of beginning and ending trade payable balance/cost of sales) x 182.5 days for 6M2022.

Allowance for impairment of trade receivables is determined by expected credit loss based on overdue classification. We may also write off an outstanding debt when we are certain that a customer is unable to meet its financial obligations to us.

The amount of provision for impairment on trade receivables during the Track Record Period is as follows:

HK\$'000	FY2019	FY2020	FY2021	6M2022
Provision for impairment on trade receivables	469,562	548,872	723,496	693,555
As a % of the trade receivables	10.5	11.7	14.9	14.4

The general provision for impairment on trade receivables was mainly from our Group's major customers, given that our Group's major customers contribute a majority of our Group's revenue during the Track Record Period. Our Group maintains strict control over our outstanding receivables and given the profile of our major customers as described below and an improvement in the global pandemic situation, we do not expect any additional loss allowance on trade receivables involving our Group's major customers to be material. For instance, our Group's credit control department is focused on minimising our credit risk and our senior management reviews our Group's overdue trade receivables balances regularly. The major customers of our Company are the larger telecommunication operators in the PRC which are state-owned, and would, given their established history, have the associated creditworthiness in the telecommunication industry and accordingly, it would be unlikely that such customers would default on their obligations. Our Group therefore continues to maintain business relationships with these major customers.

Our Group incurred net losses in FY2021 mainly due to a significant additional provision for its trade receivables that was made in accordance with the HKFRS after evaluating the impact of the global pandemic. Our Group carries out an impairment analysis during each reporting cycle using a provision matrix to measure expected credit losses, taking into account of the geography, type and rating of customers. Such scientific calculation takes into account the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Our Group may still be able to collect some of the receivables where provisions have been made.

Moving forward, our Company will be even more selective in terms of the service projects that we will take on, and shift our focus towards projects that offer better terms from a cashflow perspective. We also provide incentives to our sales staff and tie their key performance indicators to the amount of receivables such sales staff can collect from our customers. Further, we completed the first phase of upgrade of our enterprise resource planning software system (a system that we use to manage and monitor our business activities such as receivable collection) in the second half of 2020 and have been enhancing the system from time to time, so that the management of our Company is able to obtain information in relation to our accounts receivable collection status on a more timely basis. The upgraded system has greatly improved the transparency and flow of relevant information such as sales order details, certification/endorsement by customers, payment history and the ageing of receivables. In 2022, our Group further improved the system by connecting information such as "business data" and "financial cash flow data" to deliver a more timely, updated and in-depth analysis of cash flows from our customers. As such, the management of our Company believes that in the next 12 months, there are no issues with the recoverability of the trade receivables, including those from our major customers, that would result in material implications on our Group's operations and financials.

Our trade receivables as at 30 June 2022 amounted to HK\$4,819.8 million (before provision for impairment). The ageing schedule of the balance of our trade receivables as at 30 June 2022 is as follows:

	30 June 2022	
	HK\$'000	%
Within 3 months	1,776,485	36.9
4 to 6 months	340,754	7.1
7 to 12 months	1,134,976	23.5
More than 1 year	1,567,629	32.5
	4,819,844	100.0
Provision for impairment	(693,555)	
	4,126,289	

The provision for impairment is a general provision and it does not mean that the Group will not be able to collect such receivables.

Credit Terms from Our Suppliers

Our suppliers generally extend to us credit terms of up to 15 months. The availability of credit and the credit terms extended to us differ from supplier to supplier depending on, among others, the size of our order and the length of our relationship with the particular supplier.

Our average trade and bills payables turnover days for FY2019, FY2020, FY2021 and 6M2022 are set out below:

	FY2019	FY2020	FY2021	6M2022
Average trade and bills payables turnover days ⁽¹⁾	380	407	352	371

Note:

- (1) The average trade and bills payables turnover days is computed based on the formula (average of beginning and ending trade payable balance/cost of sales) x 365 days for each of FY2019, FY2020 and FY2021, and (average of beginning and ending trade payable balance/cost of sales) x 182.5 days for 6M2022.

We do not have any material exposure to doubtful trade receivables for each of FY2019, FY2020, FY2021 and 6M2022.

LICENCES, PERMITS AND APPROVALS

In operating our business, we are required to obtain various licences and permits under applicable laws. See the section entitled “*Regulations*” of this Introductory Document for further details. As of the Latest Practicable Date, our Group has obtained all the material licences and permits required for our business operations.

The following table sets out details of the material licences, permits and/or approvals held by our Principal Subsidiaries in respect of our business as at the Latest Practicable Date:

Registration Number of Licence/Permit/Approval	Name/Description of Licence/Permit/Approval	Issuing Authority/Jurisdiction	Production Facility/Company (if relevant)	Issue Date and Expiry Date (if applicable)
Licences Held by Comba Guangzhou				
外S122019104349	Business licence for manufacturing industry for manufacturing of computers, communications, and other electronic equipment	The Huangpu District AMR, Guangzhou, the PRC	Comba Guangzhou	28 April 2020 to 23 May 2052
Foreign investment certificate [2002] No. 8016 (商外资穗开外资证字[2002]8016号)	Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC	The People’s Government of Guangzhou Municipal	Comba Guangzhou	11 August 2016 to 19 May 2052
Administrative permission for special working hours (2022) No. 216 (穗埔人社工时的决(2022)216号)	Permits to implement integrated working hours and irregular working hours for certain positions	Department of Human Resources and Social Security of Huangpu District, Guangzhou	Comba Guangzhou	23 June 2022 to 30 June 2023
Licences Held by Comba Network				
外S122020009804	Business licence for manufacturing industry for manufacturing of computers, communications, and other electronic equipment	The Huangpu District AMR, Guangzhou, the PRC	Comba Network	23 August 2021 (no expiry date)

Registration Number of Licence/Permit/Approval	Name/Description of Licence/Permit/Approval	Issuing Authority/Jurisdiction	Production Facility/Company (if relevant)	Issue Date and Expiry Date (if applicable)
Foreign investment certificate [2002] No. 8033 (商外资穗开外资证字[2002]8033号)	Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC	People's Government of Guangzhou Municipal	Comba Network	20 January 2014 to 10 June 2052
Receipt of Consignees or Consignors of Imported or Exported Goods Registration (4401340014)	Registration for imported or exported goods	Suidong Customs of the PRC	Comba Network	11 December 2020 (no expiry date)
Registration Form of Foreign Trade Operators (04865130)	Registration for foreign trade business operator undertaking the import or export of goods or technology	Ministry of Commerce of the PRC	Comba Network	17 December 2020 (no expiry date)
Licence Held by Comba Telecom Limited				
Radio Dealers Licence (Unrestricted) Licence No.: RU00124343-RU	Licence to possess and deal in the course of trade or business in apparatus or material for radio communications or in any component parts thereof	Office of the Communications Authority	Comba Telecom Limited	28 March 2008, to be renewed annually, and current renewal period covers until 31 March 2023 (inclusive)

To the best of our Directors' knowledge, our Group has obtained all the necessary licences, permits and approvals for our business operations, and our Group is in compliance with all applicable laws and regulations. See the section entitled "*Regulations*" of this Introductory Document for further information. As at the Latest Practicable Date, none of the aforesaid licences, permits and approvals have been suspended, revoked or cancelled and to the best of our Directors' knowledge and belief, we are not aware of any facts or circumstances which would cause such licences, permits and approvals to be suspended, revoked or cancelled as the case may be, or for any applications for, or renewal of, any of these licences, permits, approvals and certificates to be rejected by the relevant authorities.

Where the remaining validity in relation to the licences/permits/approvals set out above is less than 12 months, we have taken steps to renew the validity of these licenses, permits and/or approvals, and we do not foresee any difficulty in relation to such renewals.

QUALITY ASSURANCE AND CERTIFICATIONS

We have implemented comprehensive quality assurance and monitoring procedures at each stage of our production process to ensure that our products meet our stringent quality control standards and the expectations and requirements of our customers.

The following table sets out the key quality assurance certifications that we have received in respect of our business, production processes and/or products as of the Latest Practicable Date⁽¹⁾:

Certification/ Quality Control and other Standards	Process/Product Certified	Notified/Certifying Body	Issue Date and Expiry Date
ISO 27001	Information Security Management System	SGS United Kingdom Ltd.	29 October 2021 to 28 October 2024
ISO 9001	Product quality management system certification	Bureau Veritas UK Limited (必维认证集 团认证控股有限公司英 国分公司)	14 October 2021 to 15 September 2024
TL 9000	Telecommunication quality management system certification	Bureau Veritas Group Holding Co., Ltd. (必维认证集团认 证控股有限公司)	3 December 2021 to 2 December 2024
ISO 14001	Environmental Management System	Bureau Veritas Group Holding Co., Ltd. (必维认证集团认 证控股有限公司)	13 July 2022 to 20 July 2025
ISO 45001	Occupational Health and Safety System	Bureau Veritas Group Holding Co., Ltd. (必维认证集团认 证控股有限公司)	13 July 2022 to 19 July 2025
ISO 9001	Quality management system certification/ Sale and after-sale services of telecommunication information products (wireless transmission equipment, satellite products, microwave products, MIFI products, Femto products, integrated server room and cabinet)	DCI Certification Ltd.	4 March 2021 to 4 March 2024
Radio Transmission Equipment Type Approval Certificate	Digital microwave communicator (XMC 8G-2H)	MIIT	7 March 2022 to 12 March 2023

Certification/ Quality Control and other Standards	Process/Product Certified	Notified/Certifying Body	Issue Date and Expiry Date
Radio Transmission Equipment Type Approval Certificate	Satellite earth RF unit (WLB-KUS40C5-C0)	MIIT	20 December 2019 to 19 December 2024
ISO 9001	Quality management system certification/ R&D, production, marketing, and technical support services of AGV intelligent vehicles (hardware and software), and visual identity system (hardware and software); R&D, marketing, and technical support services of smart park platform software	Mengbiao International Certification Co., Ltd.	16 December 2021 to 15 December 2024
ISO 9001 GB/T50430-2007	Quality management of construction enterprise system certification	Changcheng (Tianjin) Quality Control Centre Co., Ltd.	25 July 2022 to 24 July 2025
Network Access Permit	LTE FDD RPT (DFR-3510)	MIIT	1 June 2021 to 1 June 2024
Network Access Permit	LTE FDD RPT (DFR-35)	MIIT	1 June 2021 to 1 June 2024
Network Access Permit	LTE FDD mobile communication station (ENB-35, A73)	MIIT	21 January 2022 to 21 January 2025
Network Access Permit	LTE FDD mobile communication station (ENB-35, A03F)	MIIT	1 June 2021 to 1 June 2024
Network Access Permit	LTE FDD mobile communication station (ENB-35, A65)	MIIT	21 January 2022 to 21 January 2025
Network Access Permit	TD-LTE RPT (DR-3522IC)	MIIT	22 November 2021 to 22 November 2024
Network Access Permit	LTE FDD RPT (DFR-T3210)	MIIT	1 June 2021 to 1 June 2024

Certification/ Quality Control and other Standards	Process/Product Certified	Notified/Certifying Body	Issue Date and Expiry Date
Network Access Permit	LTE FDD mobile communication station (ENB-35, A82R)	MIIT	18 November 2020 to 18 November 2023
Network Access Permit	LTE FDD mobile communication station (HNB-35, A02FS42)	MIIT	1 June 2021 to 1 June 2024
Network Access Permit	LTE FDD mobile communication station (ENB-35, A85R)	MIIT	21 January 2022 to 21 January 2025
Network Access Permit	LTE FDD mobile communication station (ENB-35, A77R)	MIIT	9 December 2020 to 9 December 2023
Network Access Permit	LTE FDD mobile communication station (ENB-35, A73)	MIIT	18 May 2021 to 18 May 2024
Network Access Permit	LTE FDD mobile communication station (ENB-35, A82R)	MIIT	18 May 2021 to 18 May 2024
Network Access Permit	TD-LTE mobile communication station (ENB-3566F40C)	MIIT	19 May 2021 to 19 May 2024
Network Access Permit	TD-LTE mobile communication station (HNB-35, A03)	MIIT	24 August 2021 to 24 August 2024
Network Access Permit	LTE FDD mobile communication station (ENB-3566F3G)	MIIT	15 November 2021 to 15 November 2024
Approval for Network Access and Trial Use	5G mobile communication station (ENB-5025F41AR)	MIIT	15 September 2022 to 15 September 2023
Network Access Permit	LTE FDD mobile communication station (ENB-5125D16RMF44)	MIIT	30 September 2021 to 30 September 2024
Network Access Permit	TD-LTE mobile communication station (ENB-5125D18R)	MIIT	30 September 2021 to 30 September 2024

Certification/ Quality Control and other Standards	Process/Product Certified	Notified/Certifying Body	Issue Date and Expiry Date
Network Access Permit	LTE FDD mobile communication station (HNB-3561F3A)	MIIT	28 October 2021 to 28 October 2024
Network Access Permit	LTE FDD mobile communication station (ENB-35, A87R)	MIIT	21 January 2022 to 21 January 2025
Network Access Permit	LTE FDD mobile communication station (ENB-3566F8E)	MIIT	28 April 2022 to 28 April 2025
Network Access Permit	LTE FDD mobile communication station (ENB-3566F6E)	MIIT	28 September 2022 to 28 September 2025

Note:

- (1) Our Company does not foresee any difficulty in obtaining the renewal of these quality assurance certifications, where they are required to be renewed.

Where the remaining validity in relation to the quality assurance certifications set out above is less than 12 months, we have taken steps to renew the validity of these quality assurance certifications, and we do not foresee any difficulty in relation to such renewals.

RESEARCH AND DEVELOPMENT

Situating our global R&D centre in China places us in a unique position to offer solutions customised to particular needs and requirements rapidly and effectively through the availability of and accessibility to R&D talents, well-trained engineers, and developed testing equipment and technology, and enables us to develop cutting-edge products and services for core equipment vendors and operators.

Presently, our R&D activities are focused on the development of new products, improving the quality of our products as well as the efficiency of our production processes, as described below:

- **Development of 5G Technology and New Products**

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, we increased our 5G-related R&D investments and promoted innovation continuously to capture business opportunities amidst the digitalisation of the mobile telecommunications equipment industry. We continue to proactively engage in the development of new 5G technologies and the research on advanced technology 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.

We have our own R&D headquarters based in Guangzhou Science City, which covers an area of approximately 35,000 sq m, and a strong and experienced R&D team that engages in experimentation, analysis, research and development of new technologies, products and supply chain systems. We also have advanced testing equipment, highly efficient antenna testing environment (i.e. with a high accuracy far-field anechoic chamber and a SG128 multi-probe spherical near-field anechoic chamber) and approximately 5,500 technology patents (including approximately 900 patents under application).

- **Comba Network, an indirect subsidiary of our Company**

Our indirect subsidiary, Comba Network, 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.

As a pioneer in small cells, Comba Network offers fully independent R&D capabilities in software and hardware that meet internationally-agreed specifications for 4G/5G network access. Comba Network's diverse product range covers every application for high-power cells, micro cells, pico cells and Femto cells for mobile telecommunication. Offering comprehensive coverage in cities and wide coverage in rural areas, we provide highly-cost efficient solutions. 5G small cell products have commenced commercial trials in more than ten provinces. The value and advantages of our rapid and high-efficiency 5G network construction are well recognised by customers. In August 2022, our Group achieved a satisfactory result in the centralised procurement of 5G extended small cells for the China Mobile Group. In addition, our Group will actively participate in centralised procurement of small cells in the future.

In the area of Open RAN, drawing on years of experience in the design, development and deployment of radio frequency-related products for mobile telecommunications, Comba Network launched its standardised, platform-based high-powered remote radio unit (Open RAN RRU) product series that support advanced technologies such as multi-carrier and multi-mode, high efficiency and high capacity. This product series adopts ORAN Alliance's standard fronthaul interface and thereby fulfils inter-connection and compatibility with the globally advanced manufacturers of base-band. Furthermore, Comba Network has entered into strategic partnerships with the industry's leading integrators. Comba Network launched the industry's first multi-mode Open RAN RRU which adopts dual-frequency and tri-frequency designs, thereby maintaining its technological lead in the industry. ORAN has introduced a highly-efficient technical structure comprising general-purpose processing hardware as well as decoupling technology for software and hardware, which provides a more open application for commercial use and satisfies the demands of operators for construction of new network and maintenance of the existing networks in the era of 4G/5G co-existence, thereby providing great market potential.

In respect of 5G vertical industries, Comba Network developed Flex5, an intelligent computing platform that fully connects with "5G network + broad internet of things + MEP + AI" engines, to provide fundamental network and platform solutions that meet the target industries' specific needs and applications. The goal is to provide customers with integrated smart solutions, promote the application of 5G, implement 5G in vertical industries such as the industrial, mining, energy, medical and education sectors, and empower smart upgrades within the industry.

Our R&D expenses for FY2019, FY2020, FY2021 and 6M2022 were as follows:

	FY2019	FY2020	FY2021	6M2022
R&D expenses (HK\$ million)	346.8	471.1	608.9	259.5
R&D expenses as a percentage of our Group's total revenue (%)	6.0	9.3	10.4	8.5

EMPLOYEES

The following table sets out a breakdown of the number of our employees by activity as of 31 December 2019, 2020 and 2021 and 30 June 2022:

Activity	As of 31 December			As of 30 June 2022
	2019	2020	2021	
Senior management	19	19	12	12
Service	1,321	1,099 ⁽¹⁾	1,010	1,000
Sales and marketing	1,274	1,430 ⁽¹⁾	1,616	1,618
Production	1,167	1,124	1,019	955
Research and development	896	901	826	802
Human resources, administrative, public relations and information technology	441	358	333	312
Finance and accounting ⁽²⁾	327	272	251	234
Quality management	160	166	116	135
Logistics	132	126	109	109
Purchasing	121	96	94	100
Risk control	105	112	71	67
Strategic operating	40	42	53	50
The union committee	–	2	2	2
Total	6,003	5,747	5,512	5,396

Notes:

- (1) During the organisational restructuring of the Comba Network Group in FY2020, some of the employees were transferred from the "Service" segment in the Non-Comba Network Group to the "Sales and marketing" segment in the Comba Network Group. Hence, the number of employees in the "Service" segment had decreased while the number of employees in the "Sales and marketing" segment had increased from FY2019 to FY2020.
- (2) The reduction in headcount in the finance and accounting department was to improve operational efficiency as well as to streamline and optimise the structure of the finance department.

The following table sets out a breakdown of the number of our employees by geographical location as of 31 December 2019, 2020 and 2021 and 30 June 2022:

Geographic location	As at 31 December			As at 30 June 2022
	2019	2020	2021	
PRC	4,519	4,450	3,958	3,839
Laos	1,056	1,037	1,282	1,272
Hong Kong	101	80	70	68
Singapore	28	26	22	19
Other countries/regions	299	154	180	198
Total	6,003	5,747	5,512	5,396

The Principal Subsidiaries below have established labour unions, details of which are as follows:

Name of company	Name of labour union	Date of approval of establishment of labour union	Approving authority	Relationship between company and labour union
Comba Network	Comba Network Systems Company Limited Union Committee	17 November 2007	The General Union of Huangpu District, Guangzhou (General Union of Guangzhou Development District)	Comba Network entered into a collective contract with Comba Network Systems Company Limited Union Committee on 12 July 2021 to oversee and ensure the rights of its employees, and is valid through 31 December 2023, with the right of renewal by either party.
Comba Guangzhou	Comba Telecom Technology (Guangzhou) Limited Union Committee	28 November 2007	The General Union of Huangpu District, Guangzhou (General Union of Guangzhou Development District)	Comba Guangzhou entered into a collective contract with Comba Telecom Technology (Guangzhou) Limited Union Committee on 15 December 2021 to oversee and ensure the rights of its employees, and is valid through 31 December 2023, with the right of renewal by either party.

To date, we have not experienced any labour strikes, and we consider our relationship with our employees to be good.

Our Company considers employees with contractual terms of less than six (6) months to be temporary employees, and does not employ employees on a temporary basis.

Development and Training

We attach importance to our employees' career development, as well as enhancement of the pool of talented operational and management staff. We offer dual promotion paths, namely "promotion for management functions" and "promotion for technical expertise" and we implement a system that ties remuneration and promotion to employees' working experience, capabilities and performance to stimulate their enthusiasm at work. All Group employees must receive training every year and for the Track Record Period, 100% of our employees attended the training sessions conducted.

We place a strong focus on the cultivation of talents and advocate the concept of "promote the outstanding among flourishing talents". Our Group has established an effective and systematic talent training system, which is designed to enhance our employees' knowledge, capabilities and skills. In view of our demand for talents arising from our development goals, we ensure effective implementation of training programme from below aspects:

- **Orientation Training for New Employees**

In order to help our new employees to adapt to their posts as soon as possible, our Group offers a well-established orientation programme, which includes aspects such as trainings on occupational health and safety, corporate culture, rules and regulations, organisation management, quality management, protection of trade secrets and intellectual property rights, anti-fraud measures, processes, IT, the use of office software, information security, product and professional knowledge.

- **Professionalising Training Camp for Undergraduates**

To support the undergraduates' successful transition from a student to an employee, our Group specially organises professional training camps. For new employees, we have adopted disciplinary trainings, team outward bound trainings, task and challenge completion, in-class lectures, group activities and other training methods to deepen our employees' professional knowledge and their understanding about our Group.

- **Leadership Enhancement Training for Management**

Our Group has formulated and published the Comba Telecom Leader Competency Model (《京信通信干部胜任力模型》) in a bid to adaptively enhance our management standard and operation capacity. We strengthen the leadership and management skills of our management team by recommending high-quality strategies and management training courses and providing practical trainings. We also foster a culture of continuous learning and cultivate the strategic, innovative and team skills of management, such training sessions also boost our management's self-management skills, promote their career development in a more systematic way and better motivate and retain high-calibre managers.

- **Establishment of a Team of Internal Lecturers**

Our Group regularly organises skills upgrading courses and certification works for our internal lecturers in order to build up a team with the necessary qualifications and skills. In addition, our Group invites industry experts to provide our internal lecturers with extensive guidance on curriculum development, teaching and presentation.

- **Position-specific and Professional Knowledge Training**

In order to improve the competence of employees, we have continuously carried out position-specific and professional knowledge trainings and practices by ways of instructor coaching, internal trainings, trainings by external lecturers, external trainings and on-the-job practices. At the same time, the employee individual development plan (IDP) was launched to encourage employees to develop their personal professional ability based on company requirements and job designations, thereby laying the foundation for our stable business operation and employees' career development.

- **Learning Platform**

In order to further improve the efficiency of training and diversify the forms of training, our Group has established a learning online platform since 2018 and we continue to upgrade the new learning programmes in 2022, which allow us to overcome the limitations inherent in traditional training for departments and employees and ensure the consistency and efficiency of learning information and through which our employees may always use their fragmented spare time to study in a systematic manner. Our Group is committed towards facilitating the development and improvement of our training system and the development of our Group into an organisation with a strong focus on continual learning and training.

PROPERTIES

The following table sets out information on the material properties owned⁽¹⁾ by our Group as of the Latest Practicable Date:

Location	Gross Land Area (approximate) (sq m)	Tenure	Owner	Principal Use(s)
South of Baoshi Road, East of Jinbi Road, Guangzhou Economic and Technological Development Zone, Guangzhou, PRC (Land parcel No.: GQ-D4)	23,960.00	4 June 2013 to 3 March 2063	Comba Guangzhou	Industrial land/ Warehouse
Block 2 to 6, No. 10 Shenzhou Road, Guangzhou Economic and Technological Development Zone, Guangzhou, PRC	30,788.0882	6 November 2003 to 5 November 2053	Comba Guangzhou	Research and development
No. 1 Juncai Street, Huangpu District, Guangzhou, PRC ⁽²⁾	23,995.7424	21 May 2015 to 20 May 2055	Comba Guangzhou	Urban residential land/Dormitory
Block 1 and 7, No. 10 Shenzhou Road, Guangzhou Economic and Technological Development Zone, Guangzhou, PRC	28,160.3817	6 November 2003 to 5 November 2053	Comba Network	Research and development
Block 2, No. 6 Jinbi Road, Guangzhou Economic and Technological Development Zone, Guangzhou, PRC	23,646.3692	2 April 1997 to 1 April 2047	Comba Network	Industrial use/ Manufacturing Centre
No. 19 Jinrong Avenue 15th Floor B1705, Xicheng District, Beijing, PRC	178.31	1 February 2001 to 31 January 2051	Comba Network	Commercial- resident land use
No. 1166 Tianlong Avenue Building 2 Unit 3 Floor 1 No. 1, Jinniu District, Chengdu, PRC	1894.94 ⁽³⁾	16 November 2021 to 2 February 2062	Chengdu Comba Telecom System Co., Ltd. ⁽⁴⁾	Industry/Industrial premises for non- manufacturing use

Notes:

- (1) Under PRC laws, all the lands in the PRC are owned by the state or collective owned by individuals or entities through their rural collective organisations. Any person or entity that is not a rural collective organisation may only obtain land use rights of the land, and thus, having the land use rights is similar to owning the land under the PRC laws.
- (2) Comba Guangzhou (as landlord) leased this property to Comba Network (as tenant) from 1 November 2021 to 31 December 2022.
- (3) The gross land area of the property is 99,390.82 sq m which is owned by all the owners of the premises attached to the land. Chengdu Comba Telecom System Co., Ltd. owns the premises with the gross floor area of 1894.94 sq m.
- (4) Chengdu Comba Telecom System Co., Ltd. is wholly owned by Comba Network.

The following table sets out information on the material properties leased by our Group as of the Latest Practicable Date:

Location	Name of lessor	Name of lessee	Tenure	Whether the lease may be unilaterally terminated by the lessor	Potential impact on our Group in the event of termination of lease by lessor
No. 33, Phoenix 5 Road, China-Singapore Guangzhou Knowledge City, Guangzhou, PRC	广州市快能达文具实业有限公司 Guangzhou Kuainengda Stationery Co., Ltd.	Comba RF Technology (Guangzhou) Co., Ltd.	13 August 2019 to 31 December 2024	No	Hardship in time to relocate to a proper substituting factory space which might lead to delays in production

INTELLECTUAL PROPERTY**Registered Trademarks, Designs and Patents**

The following table sets out information on the key trademarks/patents registered under the names of our Company and our subsidiaries as of the Latest Practicable Date.

Trademark/Patents	Territories Covered	Registered Owner	Registration No.	Class(es)	Expiry Date
Digital RF long-distance system and its backup carrier channel control method (数字射频拉远系统及其备用载波信道控制方法)	China	Comba Network	2008100296607	Invention	2028-07-21

Trademark/Patents	Territories Covered	Registered Owner	Registration No.	Class(es)	Expiry Date
A wireless communication system, method and extension device for flat network architecture (一种扁平化网络架构的无线通信系统、方法及扩展装置)	China	Comba Network	2012100050961	Invention	2032-01-05
Gateway devices and base station systems (网关装置及基站系统)	China	Comba Network	2013102603085	Invention	2033-06-25
A micro area base station system, related equipment and data processing method (一种微小区基站系统、相关设备及数据处理方法)	China	Comba Network	2014103910649	Invention	2034-08-07
Method of wireless communication network formation (无线通信组网的方法)	China	Comba Network, Beijing University of Posts and Telecommunications (北京邮电大学), BUPT Sensing Technology Institute (Jiangsu) Co., Ltd. (北邮感知技术研究院(江苏)有限公司)	2015101171083	Invention	2035-03-16
GaN HEMT Bias Circuit (GaN HEMT偏置电路)	China	Comba Network	2015104166301	Invention	2035-07-14
Multi-band Doherty amplifier system (多频段Doherty功放系统)	China	Comba Network	2015106763538	Invention	2035-10-14
Ultra-wideband multi-frequency and multi-mode power amplification system (超宽带多频多模功率放大系统)	China	Comba Network	2016102705398	Invention	2036-04-25
A data transmission method, processing method and device (一种数据传输方法、处理方法及装置)	China	Comba Network	201710860616X	Invention	2037-09-20

Trademark/Patents	Territories Covered	Registered Owner	Registration No.	Class(es)	Expiry Date
Relay network element equipment, remote network element equipment and fibre optic distributed system (中继网元设备、远端网元设备及光纤分布式系统)	China	Comba Network	2019100014774	Invention	2039-01-01
Distributed antenna system, method and apparatus (分布式天线系统、方法和装置)	China	Comba Network	2019105040648	Invention	2039-06-11
High front-to-back ratio directional base station antenna (高前后比定向基站天线)	China	Comba Guangzhou	2004100523674	Invention	2024-11-23
Control device for adjusting the electric downward tilt angle of mobile communication antenna (调整移动通信天线电下倾角的控制装置)	China	Comba Guangzhou	2006100346414	Invention	2026-03-22
Ultra Wideband Dual Frequency Combiner (超宽带双频合路器)	China	Comba Guangzhou	2007100271107	Invention	2027-03-11
Wide-band circular dual-polarisation radiation unit and line array antenna (宽频带环状双极化辐射单元及线阵天线)	China	Comba Guangzhou	2007100311443	Invention	2027-10-29
Electro-modulated antenna control system and method (电调天线控制系统及方法)	China	Comba Guangzhou	2010105293797	Invention	2030-10-31
Antenna control system and multi-frequency shared antenna (天线控制系统和多频共用天线)	China	Comba Guangzhou	2012800658301	Invention	2032-12-27

Trademark/Patents	Territories Covered	Registered Owner	Registration No.	Class(es)	Expiry Date
Antenna control system and multi-frequency shared antenna (天线控制系统和多频共用天线)	China	Comba Guangzhou	2013100120583	Invention	2033-01-10
Cavity type microwave device (腔体式微波器件)	China	Comba Guangzhou	201410225678X	Invention	2034-05-25
A double-layer cavity common port combiner (一种双层腔共端口合路器)	China	Comba Guangzhou	2016103940465	Invention	2036-06-01
Linkage locking mechanism and antenna down-tilt control device (联动锁止机构及天线下降角控制装置)	China	Comba Guangzhou	2017108675969	Invention	2037-09-21
Antenna Reflector and Multi-System Community Exhaust Antenna (天线反射板及多系统共体排气管天线)	China	Comba Guangzhou	2016111978445	Invention	2036-12-21
Phase shift frequency selection device and multi-frequency antenna (移相选频装置及多频天线)	China	Comba Guangzhou	2021111614079	Invention	2041-09-29
Antenna and its feeder assembly (天线及其馈源组件)	China	Nanjing Comdi Communication Equipment Co., Ltd. (南京京迪通信设备有限公司)	2012104422766	Invention	2032-11-06
Antenna and its feeder assembly (天线及其馈源组件)	China	Nanjing Comdi Communication Equipment Co., Ltd. (南京京迪通信设备有限公司)	2012104426875	Invention	2032-11-06
Anti-corrosion treatment method of a component, corrosion-resistant conductive component and device (构件的防腐处理方法、耐腐蚀导电构件和设备)	China	Comba Intelligent Technology (Guangzhou) Limited 京信智能科技(广州)有限公司	2019101587241	Invention	2039-03-03

Trademark/Patents	Territories Covered	Registered Owner	Registration No.	Class(es)	Expiry Date
A type of broadband radiation unit and antenna (一种宽频辐射单元及天线)	China	Comba Guangzhou	2019113975089	Invention	2039-12-29
Antenna radome, its mould and preparation method (天线罩及其模具与制备方法)	China	Comba Guangzhou, Comba RF Technology (Guangzhou) Co., Ltd.	202011403455X	Invention	2040-12-03
Antenna radome, its moulding method, and moulding control device (天线罩及其成型方法与成型控制装置)	China	Comba Guangzhou, Comba RF Technology (Guangzhou) Co., Ltd.	2020114072903	Invention	2040-12-03
A source selection method, apparatus, relay device and storage medium (一种信源选择方法、装置、中继设备及存储介质)	China	Comba Network	2018113383147	Invention	2038-11-12

Save as disclosed under the section entitled “*Material Litigation*” in this Introductory Document, during the Track Record Period and up to the Latest Practicable Date, we did not have any dispute or any other pending legal proceedings concerning intellectual property rights.

Trademarks, Designs and Patents Pending Registration

The following table sets out information on patent applications made under the name of our Company or our subsidiaries as of the Latest Practicable Date:

Patents	Application No.	Territories Covered	Class(es)	Status of Application
An integrated RF connector (一种一体化射频连接器)	2020104769329	China	Invention	Under review
Miniaturized Antenna (小型化天线)	2020106229791	China	Invention	Under review
A phase shifter unit, phase shifter and array antenna (一种移相器单元、移相器和阵列天线)	202010844932X	China	Invention	Under review
Antennas and their radomes (天线及其天线罩)	2020114034668	China	Invention	Under review
Narrowband IoT resource allocation method, apparatus and base station (窄带物联网资源分配方法、装置和基站)	2018110245713	China	Invention	Under review

Patents	Application No.	Territories Covered	Class(es)	Status of Application
Low latency data processing method, apparatus and system (低时延数据处理方法、装置及系统)	2019107260905	China	Invention	Under review
A signal transmitting and receiving device and terminal (一种信号收发装置与终端)	201910580620X	China	Invention	Under review
An information decoding method, device, apparatus and medium (一种信息解码方法、装置、设备及介质)	202011630050X	China	Invention	Under review
Carrier configuration method, device, distributed antenna system and storage medium (载波配置方法、装置、分布式天线系统及存储介质)	2021116674057	China	Invention	Under review
Communication methods, devices, communication equipment and storage media (通信方法、装置、通信设备和存储介质)	2021111447146	China	Invention	Under review
Indoor distribution system and signal transmission method (室内分布系统和信号传输方法)	2021101296811	China	Invention	Under review

Our Company estimates that the pending patent applications as set out in the table above will be completed in one (1) to four (4) years.

All the key patent applications under review have undergone detailed analysis both internally by our Company and externally by our partner IP specialists to sustain a very high approval rate. Such patents are to further increase our Group's competitiveness in the industry/market and to gain more recognition for our innovation and technology. Nonetheless, in case of any non-approval, our Company's currently owned key patents that are already registered for future development and technology innovation are sufficient to support our business expansion plans. In the event that such patent applications under review are not granted, this should not have adverse implication on our Group.

INSURANCE

We maintain insurance coverage in respect of, among others, the following key risks: damage to property (our factories, machinery, stock-in-trade, warehouses and offices, including our rented warehouses and offices in PRC), business interruption, and public and product liability.

We believe that our insurance coverage is adequate for our business needs and operations and in line with industry practice. We will continue to regularly review and adjust our insurance coverage based on our needs and industry practice.

SEASONALITY

Our sales typically increase in the last quarter of the calendar year and particularly in December due to a general increase in spending by our customers during that period. Our PRC and global customers tend to increase capital expenditure or operating expense before the end of the calendar year, thus resulting in increased sales for our Company for the last quarter of the calendar year.

CORPORATE SOCIAL RESPONSIBILITY AND ENVIRONMENT

Our Group recognises “Connecting the World to Promote the Progress of Human Civilisation” as our corporate vision and “Achieving Innovation and Development in the Information Communications Technology Areas to Provide Customers with Excellent Communications and Information Solutions and Services” as our corporate mission. Considering our customers, employees, Shareholders and the government as the basic elements to achieve business core values, our Group is devoted to creating ideal values for customers, co-developing better life quality as well as leading the way and giving back to society. By adhering to the long-held core culture of “Pursuing Perfection and Harmony”, our Group pays close attention to policy and market changes to effectively control risks, and is committed to integrating sustainable development and social responsibility into our corporate culture.

Our Board assumes the overall responsibility for our management strategies and reports on ESG as well as for the identification, assessment and determination of our risks concerning ESG, and ensures that we have established a proper and effective system of ESG risk management and internal control.

We reported our progress in fulfilling the annual safety production goals, and reviewed the result based on our annual responsibility goals so as to conduct planning for safety management for the following year on the basis of the fulfilment status in 2021. Monthly reports on management and control of energy, as well as inspection of production safety have been prepared, while management and control responsibilities have been assigned to individuals, with a view to raising and cultivating awareness of energy conservation and production safety among all employees. We regularly organise targeted training for department leaders, project leaders and employees, implement safety responsibilities, improve the awareness of independent safety production, and ensure that all employees are aware of safety measures. All employees are required to sign the Safety Production Responsibility Paper (《安全生产责任书》).

In addition to providing supervision and guidance, our Board regularly listens to the management teams’ reports on production safety, operation and management, internal control and corporate social responsibility. Our Board assesses and ranks various risks, taking into account, among others, the impacts on our corporate strategies, policies, procedures and commitment, impacts on our competitive edges and management excellence, and current and future financial impacts on us. Major considerations of external stakeholders conducting materiality assessment include impacts on our evaluation and decision-making, and on the interests of themselves. We have established an ESG work leadership group which is responsible for making decisions on major

issues during the process of the guideline implementation and conducting assessment and providing feedback on the effectiveness of its management. The management of major risks such as production safety, employee health, energy conservation and environmental protection, intellectual property rights, fraud risk, internal control and corporate culture has already been incorporated into the daily work and comprehensively ensured the effectiveness and applicability of our ESG work leadership group.

Our Group is committed towards managing our business operations in accordance with applicable laws and industry regulatory rules, operating with integrity and establishing a law-abiding and compliant system in terms of internal control construction, audit supervision, corruption prevention and comprehensive risk management. We establish and improve long-term communication mechanism, standardise the disclosure of corporate information, and consciously accept supervision by regulatory authorities and the general public. We improve communication with stakeholders such as investors, customers, employees, governmental and regulatory authorities, and communities by way of announcements, reports, conferences, service hotlines and events. We strive to listen carefully to stakeholders' expectations and demands, and actively respond to them. We pursue a safe, green, effective and sustainable development model. Based on the investigation on the environment systems, we will consolidate the sustainable development dimensions in relation to social and corporate governance, at the same time comprehensively identify and evaluate corporate risks and responsibilities or opportunities in a bid to ensure our compliance with responsible investment principles and generate effective and sustainable returns for our investors and stakeholders. It has become more important than ever to maintain good ESG practices. We aim to reduce the impact of global warming and improve air quality as well as be committed to instilling the awareness of resource conservation by reducing the discharge of substantial amount of wastewater and exhaust gas generated during operation. Our Group also strives to integrate the concept of low carbon and environmental protection into work and daily life with a view to building a greener environment.

Environmental Protection and Resource Utilisation

Our Group is committed to achieving the sustainable development goal of environmental protection and energy conservation. By implementing our environmental and quality management system to manage the environment in a systematic manner, our Group strives to deliver the development strategy of balancing environment, society and economy. Our Group has adopted the management concept of life cycle in all our business activities worldwide to minimise adverse effect on environment while producing and offering services, perform our compliance obligations and enhance environmental protection, thus contributing to the better prevention of environment pollution and the sustainable development of society.

- **Emissions**

To comply with relevant laws and regulations promulgated by the PRC such as Environmental Protection Law (《环境保护法》), the Law on the Prevention and Control of Air Pollution (《大气污染防治法》) and the Law on the Prevention and Control of Water Pollution (《水污染防治法》), our Group sets a goal of environmental management to achieve pollution reduction and emission control and strictly monitor waste discharge during the course of production by setting up ISO 14001 Environmental Management System and carrying out environmental control procedures as well as environmental monitoring and measurement control procedures pursuant to the working guideline of “standardising the works of environmental management, taking precaution as the main task, fulfilling regulation requirement, satisfying the standards of emission to make sure that it is under control and continuing to save energy and reduce consumption”, with the aim of ensuring the management and control of pollution at source.

Our Group is committed to achieving environmental and social sustainability in our daily operations. In terms of environmental aspects of the 2022 sustainable development goal, we ensured that there were zero fines imposed on our Group as a result of exhaust gas emission. We have designated dumping areas in each production base that segregate waste and recycle appropriate items.

During the production process of our Group, there is no emission of industrial wastewater, except for a little air contaminant discharged by our administrative cars and standby generating sets. Wastes in each production area are discharged after treatment in accordance with the approved requirements based on the evaluation on the impact on the environment and the production areas shall perform annual review to ensure legal and compliant emission of exhaust gas. All the toxic waste generated by our Group, including batteries, bulbs and coolant oil, will undergo professional recovery and processing by qualified waste recovery and processing companies. Our Group has entered into contracts for hazardous waste treatment with companies that have obtained national qualification for hazardous waste treatment to carry out regular waste disposal. Our Group has also signed treatment orders for hazardous wastes to be regularly reported on the government website for reporting hazardous wastes. Non-hazardous waste mainly includes domestic waste generated from our daily office works and canteen, which has been treated in strict compliance with the sorting principle. Raw material wastes such as vegetables, roots and animal offal should be treated as domestic wastes; swills should be disposed into swill buckets as required; canteen garbage should be dumped into the garbage pool in a centralised manner and dumping at will is prohibited. Indirect emissions from external production of electricity and employees' business trips are the major source of our Group's greenhouse gas emission.

In 2022, our Group continued to optimise solutions and scope for the use of administrative cars. Administrative cars can only be used for important corporate business entertainments. The fleet arrangements during daily operations are reasonable and user-friendly to avoid unnecessary car usage. For non-essential business, staff are encouraged to take public transport or choose ride-hailing services via third-party platforms that are more affordable. Our Group has also consolidated the frequency and route of our shuttle buses for many timings based on the actual situation. Our Group has carried out regular supervision over and assessment of the service quality of the outsourcing service companies, enhanced the degree of digitalisation of our documents, optimised offline working procedures, formulated online working procedures to encourage paperless office work so as to reduce paper consumption while printing, and at the same time conscientiously implementing the relevant PRC laws and regulations and strictly implementing waste sorting system, thereby effectively reducing the emission of pollutants.

- **Resource Utilisation**

Our Group carefully considers environmental factors throughout the life cycle of our products and services to provide our products with the characteristics of energy and natural resource saving and non-pollution in each procedure of R&D, production, sale, transportation, utilisation and abandonment. The manufacturing base in Guangzhou Development Zone has been certified by the Green Manufacturing System (绿色制造体系) since 2018. Our Company effectively manages water consumption and wastewater treatment to reduce environment pollution and actively promotes the concept of water conservation through publicity and educational activities, energy conservation column on our Company's WeChat account and regular reporting and posting of wasting behaviours. To save water resources, our Group also sets water usage and conservation targets, striving to lower the usage by 6% year-on-year. Our Group has not encountered any difficulties in seeking appropriate water sources. Our Group also increases the frequency of daily inspections and perform around-the-clock regular and non-regular inspections on power and water utilisation in each

floor and each department of the base; maintains proper inspection records and publicly criticises the departments with behaviours of wasting; reduces the utilisation of hazardous and toxic substances in each procedure, proactively seeks, develops and uses new environmental technologies and materials and encourages recycling of all materials, while for resource and energy consumption, our Group promotes active application of energy efficient products, equipment and techniques to reduce energy consumption.

In 2022, our Group continued to optimise and reform our product packaging. Our Group prioritised the adoption of environment-friendly technologies in the construction of new projects, during which an inspection report shall be submitted regarding the materials used so that all materials can meet national requirements for environmental protection and will not cause contamination to the surrounding environment when used. Our Group also reduced the use of packaging accessories and packaging materials, and at the same time planted more trees in China-Singapore Guangzhou Knowledge City.

- Environmental and natural resources

Our Group is proactive in enhancing staff awareness of and responsibility towards environmental protection. All the employees in each of our branches worldwide are required to comply with local laws and regulations in respect of environment, safety and health. In the absence of local laws and regulations, they are encouraged to provide assistance in solving environmental issues under relevant standards of our Group where possible.

Our Group has set up scientific goals in environment and energy consumption, and we continually evaluate and improve the synergy among our Group's operating activities, products and the environment. In addition, our Group transmits environmental information to our stakeholders in a timely manner. Furthermore, in selecting and managing our suppliers and outsourcers, our Group focuses on environmental considerations.

- Climate Change

Mainland China, Hong Kong and other regions in PRC and abroad where our Group's major sales offices are located, pay attention to major climate policies and comply with local laws and regulations related to environmental protection. Currently, climate factors have no material impact on our production and operations. We will closely monitor the impact of extreme weather conditions, such as typhoons, strong winds, extreme cold and humidity, on the production and logistic processes, make corresponding predictions and take preventive measures such as upgrading and optimising environmental protection products and enhancing product performance so as to reduce the impact of climate change on product performance and direct operation.

- Carbon Neutrality

Achieving green and low-carbon development is a top-listed strategy at the national level in PRC and a necessary condition for the long-term healthy and sustainable development of our economy in PRC.

We continue to keep a close eye on the Intergovernmental Panel on Climate Change (IPCC) proposal on the 1.5°C target and subsequent changes. We are committed to halving our total greenhouse gas emissions by 2030, in alignment with the 1.5°C target. We will adopt robust measures to constantly integrate the concept of low-carbon development into product design and all aspects of our operational activities. At the same time, we will work with our partners, customers, and suppliers to seek a sustainable low-carbon business environment.

Corporate Social Responsibility

We are committed to being a good corporate citizen in the communities we operate and recognise that the long-term success of our Group's business is closely intertwined with the health and prosperity of the communities in which we operate.

Whilst accelerating our own development in a healthy and rapid manner, our Group is devoted to supporting social charity and we proactively fulfil our social responsibilities and obligations. We have devoted manpower and financial resources to various charitable causes including public welfare activities, poverty alleviation, donations for school, staff care and expressing greetings and concern to the injured and disabled.

Our Group also prioritises the health and safety of our employees. During the COVID-19 pandemic, our Group implemented measures for the prevention and control of the pandemic in a timely manner. Our Group was among the first batch of enterprises in Guangzhou which resumed work and production after the Chinese New Year in the year 2020 and has implemented a comprehensive standard operating procedure for the resumption of work and production in our three (3) bases. Measures implemented included daily disinfection in the bases, supply of catering services in canteens, virus testing for staff in relation to shuttle bus and gate entry. At the same time, quarantine rooms were set up in dormitories for employees returning to Guangzhou from high-risk regions hit by the pandemic. The work in relation to prevention and control of the pandemic after resumption of work has gained recognition from both the regional and municipal government.

At present, the COVID-19 pandemic is still ongoing across the globe, and there are ongoing cases and lockdowns in China. We have strictly implemented the COVID-19 requirements of each country at all levels, coordinated domestic and overseas pandemic prevention and controls. During the pandemic, we implemented measures for the purposes of preventing and controlling the COVID-19 virus within our Company, and recorded zero infection cases and COVID-19-related incidences within our Company. Related measures included daily disinfections in the manufacturing and R&D bases, supply of meals in canteens, virus testing for staff working on shuttle buses and at the gates. At the same time, quarantine rooms were set up in dormitories for employees returning to Guangzhou from high-risk regions hit by the pandemic. An online platform on Corporate WeChat was also built to promptly release announcements relating to pandemic prevention and control, with a view to guiding our Group and various departments to implement prevention and control measures for employees. The schedules of employees during their holidays were also collected to timely keep abreast of their health conditions and maintain regular epidemic prevention and controls. Our Group also paid attention to personal care by implementing measures related to employment stabilisation to safeguard employees' benefits. During the fight against the pandemic, employees who were not able to report for work as per normal due to the pandemic in accordance with the requirements of the relevant guidance as promulgated by the government, or employees who were able to work from home, were arranged to work from home and remunerated as normal, while employees who were not able to work from home were given priority to take paid leaves and be arranged for leave.

MATERIAL LITIGATION

Save as disclosed below, our Principal Subsidiaries are not a party to any litigation or arbitration proceedings, including those which are pending or known to be contemplated, which may have, or which have had in the 12 months immediately preceding the date of this Introductory Document, a material effect on the financial position or profitability of our Group.

Comba Network and Comba Guangzhou (as plaintiffs) had brought a civil action against Guangdong Huisu Telecom Technology Company Limited by Shares (as defendant), to seek compensation for the defendant's infringement of its invention, named "Cavity Microwave Device" (Patent No. 201410225678X). The amount claimed is RMB40,000,000. The plaintiffs' case had prevailed in the first instance, and the defendant had appealed the decision. As at the Latest Practicable Date, the lawsuit is still pending, and the amount claimed is not recorded as a receivable. Taking into consideration that our Group is the plaintiff in this claim and the judgement in the first instance is currently in favour of our Group, we are of the opinion that such outstanding litigation will not have material adverse implications on our Company's financials, operations, and future plans.

ORDER BOOKS

Unlike traditional manufacturing companies where order books may be considered essential in monitoring the output required to meet periodical order requirements, our Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment, the provision of related engineering services and operator telecommunication services and their related value-added services, which are not the subject of mass production for mass-market sales. Hence, our Group is of the view that the concept of order books is not relevant to our business.

COMPETITION

We operate in a highly competitive industry. Competition in the telecommunications equipment industry is intense and evolving. We face competition from large manufacturers in the region, especially those in the PRC. While we compete both globally and on a regional basis, we believe that we have a good market share in China, and in the sales and services franchise in the overseas market. We believe that we are able to compete against other manufacturers of telecommunications equipment due to the following factors in terms of our products and services:

- Our pricing and cost competitiveness;
- Our technological innovation and R&D capabilities;
- Our established reputation;
- Consistent performance and quality of our products;
- Our manufacturing efficiency; and
- Our good relationships with existing customers (which include the largest telecommunication operators in the PRC. See the section entitled "*Business – Major Customers*" of this Introductory Document for more information).

For additional information concerning the competitive risks that we face, see the section entitled "*Risk Factors – We operate in a highly competitive industry and may not be able to continue competing successfully.*" of this Introductory Document.

We have strategically entered into the market of the 5G technology segment in which there is limited competition relative to other segments. However, we expect this segment to become more competitive in the future. Given the quality and performance of our products and services and our attractive pricing, we believe that we are strategically positioned in the telecommunications equipment market, particularly in the 5G technology segment.

COMPETITIVE STRENGTHS

We believe that our Group benefits from a number of competitive strengths underpinned by our track record and the experience of our management team.

- **We are a global leading solution and service provider of wireless and information communications system with our own R&D facilities and manufacturing base.**

We are a global leading solution and service provider of wireless and information communications with a long track record of operating in the telecommunications equipment industry which has high barriers to entry.

We have built a strong reputation for high quality products and service standards and we sell and provide services to global tier one (1) operators. We also have a global network of offices serving the other markets.

Our manufacturing base occupies an area of approximately 80,000 sq m in Guangzhou and our R&D lab occupies approximately 3,500 sq m in Guangzhou. Our Group has established a good brand for attracting talents in Guangzhou. Situating our global R&D centre in China also places us in a unique position to offer solutions customised to particular needs and requirements rapidly and effectively through the availability of and accessibility to R&D talents, well-trained engineers, and developed testing equipment and technology, and enables us to develop cutting-edge products and services for core equipment vendors and operators.

- **We use modern manufacturing technology to produce innovative products and for our product testing, such as automotive manufacturing capabilities.**

We use modern technology with automated manufacturing capabilities, and also have a fully-equipped antenna testing environment with advanced testing equipment and near-field and far-field antenna testing chamber.

- **We have a strong sales & marketing team and service team with good synergy to serve customers, and international footprint and offices worldwide, including in China and more than 20 countries and regions around the world.**

We have a strong sales & marketing team which works closely with our service team. Our Group has established footprints and offices worldwide, including in China and more than 20 other countries and overseas regions around the world. Most of the international mobile operators and globally leading telecom core equipment manufacturers are our customers.

- **We have a replicable business model that is built on green initiatives.**

Our Company strives to build a green industry supply chain by reducing the carbon footprint and environmental pollution in the manufacturing process and realise sustainability throughout the life cycle of the antenna. By developing an advanced pollution-free ion beam coating process, the traditional high-energy electroplating process has been replaced, greatly reducing the proportion of electroplating parts in products. Through the combination and innovation of new materials and new processes, the environment-friendly, pollution-free and low dielectric constant radome has been developed to replace the traditional fibre reinforced plastic radome that generates dust and wastewater, is non-degradable and cannot be recycled, and reduces the weight of the antenna and improves its performance.

To support the lower-carbon footprint target of 5G networks, our Company has launched a high-end 4G/5G (8TR) integrated Base Station Antenna, which achieves energy saving and lower carbon emission while meeting the capacity and coverage requirement and has become the mainstream tower-top antenna solution for global 5G network construction. For low-carbon network operation, our Company has released a low-loss and high-efficiency green antenna. With the adoption of pin to pin low-insertion-loss modular integration solution, low-insertion-loss phase shifters and feeder network integration is achieved, minimising the antenna internal loss, and improving the antenna gains and efficiency.

With the focus of our Group on green initiatives and product, and through the innovation capabilities from our R&D team, we have been able to introduce green initiatives across our product line and supply chain to meet the increase in demand from customer on green product and thought leadership.

We have also launched the “green and innovative antenna and subsystem solution” with lower loss rates and higher efficiency by promoting innovation in response to the national low-carbon and environmental protection strategy and the low-cost network construction philosophy of the operators.

- **We have the capability to offer customised solutions to meet specific needs and requirements of our customers efficiently and effectively, such as the “green and innovative antenna and subsystem solution” and applications of 5G+ vertical industries.**

Our Group has been looking into and analysing the relevant technological developments in the telecommunications industry in order to be able to anticipate our customers’ needs and stay ahead of the development curve. We have an advanced technology development team, which actively carries out research on frontier technologies of antennas and subsystems, and leads the development of the industry with a number of original technologies. We rely on our strong development team to transform customer needs into specific product solutions and quickly respond to customer needs with efficient R&D organisation. Our sharp technical foresight of wireless coverage solutions and ability to achieve industry-leading antenna technology innovation allow us to constantly introduce antenna and subsystem solutions and related products that lead the industry’s technological progress.

We have explored a replicable business model in the 5G+Smart Mining, which provides the industry’s overall solution integrators with an end-to-end basic network and computing power platform that meet the needs of the industry. In the future, we will continue to promote other industry applications, such as smart construction sites, smart energy, smart healthcare, smart education, 5G smart entertainment, etc.

- **We own over 5,500 patents globally (including approximately 900 patents under application).**

We have approximately 5,500 patents (including approximately 900 patents under application) globally, which include patents winning Golden Prize of the Chinese Patent Award – the highest honour in PRC patent field, and have been recognised by the United Nations World Intellectual Property Organization (WIPO). Through our proven capabilities in technological innovations, we expect to continue to grow the number of patents. The higher the number of patent applications, the higher the innovation ability of an enterprise. The number of patents is also an important embodiment of our determination and spirit of innovation to a certain extent. Naturally, our Group not only pays attention to the number of patent applications but also emphasises the quality of such applications, aiming to obtain more quality patents for us to retain our competitive edge.

- **We have a strong management team with an average of over 20 years of experience.**

Our senior management team has extensive experience and expertise in the network system, base station antennas and subsystems businesses. The majority of our Executive Officers and Directors are qualified in the relevant engineering and telecommunication technology fields, and have a wide range of experience in the telecommunication industry, including research and development, marketing, manufacturing and operation management.

BUSINESS STRATEGIES AND FUTURE PLANS

Business Strategies

Our business strategies are as follows:

- Enhancement of our R&D capabilities to ride on trends and business opportunities arising from the digitalisation of the telecommunications industry;
- Expansion of our product range, which includes the continual development and launch of eco-friendly and ESG products such as “green and innovative antenna and subsystem solution”;
- Expansion of the 5G vertical industry, including working with telecom operators to expand 5G+ industrial control applications that are in line with trends in arithmetic network construction and launching 5G wireless intelligent cloud network products;
- Continue to increase our market share in shared indoor wireless network coverage solutions and 5G+ vertical industries, especially through the expansion of our 5G+Smart Mining business and the strengthening and improvement of our technical support rendered to our customers;
- Continue to expand our base station antenna product portfolio and maintain our position as the technology and market leader in the base station antenna market. Partnering with international mobile operators and world-leading manufacturers of core equipment vendors. Supporting our partners to build efficient wireless network globally;
- Grow the Open RAN business and ecosystem by seeking strategic partners, exploring new sales channel and conducting joint product R&D to address both the macro and private network markets;
- Expansion of our business through, *inter alia*, investments, joint ventures and/or strategic collaborations and establishment of our brand and brand image; and
- Strengthening our operational control including digitalisation of our operations and internal management, conducting effective cost control and streamlining operations in order to improve our profitability.

Future Plans

In recent years, business in the APAC region has developed rapidly, and our Group also sees more business opportunities in this region. In order to support the development of our APAC business, our Company intends to increase our resources in Singapore and its surrounding regions, and to establish Singapore as an important hub in the APAC region.

We are also preparing for a spin-off and separate listing of Comba Network on the SSE Sci-Tech Board.

As at the Latest Practicable Date, our Company indirectly holds approximately 79.48% equity interest in Comba Network. Comba Network Group is principally engaged in the manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services. It currently focuses on research and development, manufacture and sale of network system products, including macro cells, small cells, related extended & in-depth coverage solutions and Open RAN products as well as providing network solutions for 5G vertical industry.

Our Board is of the view that the Proposed Spin-off and Listing will provide the Comba Network Group with a variety of benefits, including unlocking its hidden value and increasing its own brand image. As it is expected that the Comba Network Group will remain as our subsidiary after the Proposed Spin-off and Listing, our Group will enjoy the benefits arising from the growth of the Comba Network Group as a result of the Proposed Spin-off and Listing. In light of the above, our Board considers that the Proposed Spin-off and Listing is in the interests of our Company and the Shareholders as a whole.

On 3 September 2021, the HKSE confirmed that we may proceed with the Proposed Spin-off and Listing under Practice Note 15 of the Hong Kong Listing Rules.

It is intended that Comba Network will issue new shares and proceed with the listing on the SSE-Sci-Tech Board. The Proposed Spin-off and Listing will result in a reduction of our equity interest in Comba Network and, if materialised, the Proposed Spin-off and Listing will constitute a deemed disposal (as defined under Rule 14.29 of the Hong Kong Listing Rules) of our equity interest in Comba Network.

Pursuant to relevant PRC laws and regulations, prior to submitting the listing application to the CSRC and the relevant stock exchange in the PRC, Comba Network is required to engage a pre-listing tutoring agency to provide tutoring service, and such tutoring shall be subject to the approval of the relevant local office of the CSRC. However, the submission of the application for the pre-listing tutoring process or the acceptance of such application does not mean that Comba Network has (i) fulfilled the criteria for the application for the listing to the CSRC or the relevant stock exchange in the PRC; or (ii) applied for the listing to the CSRC or the relevant stock exchange in the PRC.

The Proposed Spin-off and Listing is subject to, among other things, the obtaining of approvals from the relevant authorities (including the CSRC, the relevant stock exchange in the PRC and the HKSE) in respect of the listing of, and permission to deal in, securities of Comba Network, and the final decisions of our Company and Comba Network. Shareholders and potential investors of our Company should be aware that there is no assurance that the Proposed Spin-off and Listing will take place or as to when it will take place. Shareholders and potential investors of our Company should therefore exercise caution when dealing in or investing in the securities of our Company.

REGULATIONS

The following is a summary of the material laws and regulations applicable to our Group as at the Latest Practicable Date. With regards to the PRC laws, our PRC Legal Adviser to the Company and the PRC Legal Adviser to the Issue Manager are of the view that during the Track Record Period, the Principal Subsidiaries Comba Guangzhou and Comba Network have complied with relevant PRC laws currently in effect that would materially affect their business operations in all material aspects. Further, our PRC Legal Adviser to the Company and the PRC Legal Adviser to the Issue Manager are of the view that the principal activities of the PRC subsidiaries of our Group incorporated in the PRC are in accordance with their respective business licences. As of the Latest Practicable Date, our Group is in compliance with the laws and regulations that would materially affect our business operations.

THE PRC

RELEVANT PRC LAWS AND REGULATIONS IN RELATION TO THE INDUSTRY

Based on the business scope of the subsidiaries of our Company registered with the relevant governmental approval and registration authorities in the PRC, products manufactured by the subsidiaries of our Company are categorised as telecommunication equipment. This industry is mainly regulated by the MIIT. Relevant essential PRC laws and regulations of the industry include the Regulations of the People's Republic of China on the Administration of Radio Operations (《中华人民共和国无线电管理条例》) (the “**Regulations on Radio Operations**”), Provisions on the Administration of Manufacturing of Radio Transmission Equipment (《生产无线电发射设备的管理规定》) (the “**Provisions on Radio Manufacture**”), Telecommunications Regulations of the PRC (《中华人民共和国电信条例》) (the “**Telecommunications Regulations**”) and Administrative Measures for the Network Access of Telecommunication Equipment (《电信设备进网管理办法》) (the “**Network Access Administrative Measures**”). The brief description of aforementioned laws and regulations is as follows:

Regulations on Radio Operations

Pursuant to the Regulations on Radio Operations jointly promulgated by the State Council and the Central Military Commission on 11 September 1993 and amended on 11 November 2016, radio operations are regulated by the national radio administrative agency, and the provincial radio administrative agency supervises non-military radio operations in corresponding province under the leadership of the national radio administrative agency and provincial government. Where an enterprise manufactures radio transmission equipment sold or used domestically, such equipment's working frequency, frequency band, and relevant technical standards are required to comply with national standards and relevant regulations on radio management. Manufacturing enterprises must be registered with the national radio administrative agency and sale enterprises shall be filed with provincial radio administrative agency.

Provisions on Radio Manufacture

Pursuant to the Provisions on Radio Manufacture jointly issued by the State Radio Regulating Committee (currently the National Radio Administration Bureau) and the State Bureau of Quality and Technical Supervision (currently the State Administration for Market Regulation) on 7 October 1997 that came into effect on 1 January 1999, the National Radio Administration Bureau is authorised to supervise radio transmission equipment manufactured by an enterprise based on the transmission characteristics for a particular model, and is responsible for the issuance of a “Certificate of Approval of Model of Radio Transmission Equipment” (“无线电发射设备型号核准证”) and an “Model Approval Code” (“型号核准代码”). The manufacturing enterprise shall specify such Model Approval Code on the label of the radio transmission equipment.

Telecommunications Regulations

Pursuant to the Telecommunications Regulations promulgated by the State Council on 25 September 2000, and last amended on 6 February 2016, the MIIT has implemented regulatory control over the nationwide telecommunication industry. Under the supervision of the MIIT, the telecommunications administrative agency of the provinces, autonomous regions, and municipalities directly under the PRC central government have accordingly implemented regulatory control the telecommunications industry within their respective jurisdictions.

The State Council's department in charge of the information industry shall complete its examination of the application and the telecommunications equipment testing report or product quality certificate within 60 days of the date of receipt of the application for a telecommunications equipment network connection permit. If the equipment is found to meet the standards after examination, a network connection permit shall be issued. If the equipment is found not to meet the standards, a response shall be given in writing explaining the reason.

Network Access Administrative Measures

Pursuant to the Network Access Administrative Measures promulgated by the MIIT on 10 May 2001 and amended on 23 September 2014, the State Council has implemented a telecommunication equipment network access permit system for telecommunication terminal equipment, wireless communication equipment, and interconnection equipment connecting to public networks. The telecommunications equipment subject to the network access permit system shall obtain the network access permit issued by the MIIT. Without the network access permit, no telecommunications equipment shall be connected to the public telecommunications network or sold in the domestic market.

The catalogue of the telecommunications equipment subject to the network access permit system shall be formulated and publicized by the MIIT in conjunction with the product quality supervision department under the State Council. An application filed by an enterprise producing telecommunications equipment (hereinafter referred to as the “**manufacturing enterprise**”) for the telecommunications equipment network access permit shall comply with the provisions of the relevant laws, regulations, and policies of the PRC. Telecommunications equipment for which an application is filed for the network access permit shall comply with national standards, standards of the communications industry, and the provisions of the MIIT. An enterprise manufacturing telecommunications equipment shall have a well-established quality assurance system and after-sale service measures. In the event of an application for the telecommunications equipment network access permit, a manufacturing enterprise shall submit a testing report or product accreditation certificate issued respectively by a telecommunications equipment testing institution or an accrediting agency recognised by the product quality supervision department under the State Council. The testing institution's basis for the testing of the telecommunications equipment for which an application is filed for the network access permit, the procedures of the testing, and the testing report issued thereby shall comply with the provisions of the State Council or the MIIT. The Telecommunication Administration Bureau of the MIIT is generally responsible for the administration of telecommunication equipment connecting to public networks and the supervision of testing nationwide. The approved agency authorised by the MIIT shall undertake the specific matters relating to the acceptance of the applications for the telecommunications equipment network access permit.

The MIIT shall complete its examination of the application and the telecommunications equipment testing report or product quality certificate within 60 days of the date of receipt of the application for a telecommunications equipment network connection permit. If the equipment is found to meet the standards after examination, a network connection permit shall be issued. Telecommunications equipment manufacturers must ensure that the quality of the telecommunications equipment for which they have obtained a network connection permit is stable and reliable and they may not lower the quality or performance of their products.

Telecommunications equipment manufacturers shall affix a label bearing the network connection permission symbol to the telecommunications equipment for which they have obtained a network connection permit. The label, which is a quality mark, shall be uniformly printed and issued by the MIIT. The label may not be affixed to telecommunications equipment without a network access permit, or to telecommunications equipment whose network access permit has lost its validity. The manufacturing enterprises shall indicate the codes of the network access permits on the packaging of the telecommunications equipment with a network access permit and in the advertisements for such equipment that they publish.

A network access permit shall be valid for three (3) years. If a manufacturing enterprise needs to continue producing and selling telecommunications equipment with a network access permit, it shall, three (3) months prior to the expiration of its network access permit, apply for a new permit accompanied by a testing report on samples provided or a report of supervision and random inspection on product quality issued within one (1) year, and return the original permit.

With respect to telecommunications equipment that is subject to the network access permit system but does not obtain the network access permit, it shall not be used by a telecommunications service operator.

REGULATIONS ON PRODUCT LIABILITY

The Product Quality Law of the PRC (《中华人民共和国产品质量法》) promulgated by the SCNPC on 22 February 1993, became effective on 1 September 1993 and last amended on 29 December 2018, stipulates that producers shall be liable for the quality of their products. The products shall meet the following quality requirements: (i) be free from unreasonable dangers threatening the safety of human life and property, and conform to the national standards or trade standards safeguarding the health or safety of human life and property where there are such standards; (ii) possess the properties and functions that ought to be possessed, except for those with instructions stating their functional defects; (iii) conform to the product standards marked on the products or the packages thereof, and to the state of quality indicated by way of product descriptions, samples, etc. Producers shall be liable to compensation for any damages caused by defects of their products. Any producer who violates this law may be fined and ordered to stop producing illegally manufactured products, and its illegal profits may be confiscated. Where the situation is serious, the business licence shall be revoked. Where a criminal offence is committed, the producer will be held criminally liable.

REGULATIONS ON THE IMPORT AND EXPORT OF GOODS

The Foreign Trade Law of the PRC (《中华人民共和国对外贸易法》) (the “**Foreign Trade Law**”) was promulgated by the SCNPC on 12 May 1994, came into effect on 1 July 1994 and was last amended on 7 November 2016. Pursuant to the Foreign Trade Law, a foreign trade operator engaged in the import and export of goods or technologies shall make a registration for record with the department in charge of foreign trade under the State Council or institutions entrusted by it. Those that are exempted from registration for record by laws, administrative rules, and rules of the department in charge of foreign trade under the State Council shall be excluded.

Pursuant to the Administrative Provisions of the Customs of the PRC on Record-filing of Customs Declaration Entities (《中华人民共和国海关报关单位备案管理规定》), which was promulgated by the General Administration of Customs on 19 November 2021 and became effective on 1 January 2022, unless otherwise required by laws, where the consignee or consignor of imported or exported goods or a customs declaration enterprise applies for fillings, it shall obtain the qualification of market entities and particularly where the consignee or consignor of imported or exported goods applies for fillings, it shall be filed as a foreign trade business. Where the consignee or consignor of imported or exported goods or a customs declaration enterprise has completed relevant fillings for customs declaration entities, the branches that meet the requirements of the preceding paragraph may also apply for filling for customs declaration entities.

REGULATIONS ON ENVIRONMENT PROTECTION AND WORK SAFETY

Environmental Protection Law

Pursuant to the Environmental Protection Law of the PRC promulgated by the SCNPC on 26 December 1989, amended on 24 April 2014 and became effective on 1 January 2015, any entity which discharges or will discharge pollutants during the course of operations or other activities must implement effective environmental protection safeguards and procedures to control and properly treat waste gas, wastewater, waste residue, dust, malodorous gases, radioactive substances, noise, vibrations, electromagnetic radiation, and other hazards produced during such activities.

The Ministry of Ecology and Environment of the PRC (中华人民共和国生态环境部) and its local counterparts, and the local people's governments impose various administrative penalties on individuals or entities in violation of the Environmental Protection Law. Such penalties include warnings, fines, orders to rectify within the prescribed period, orders to cease construction, orders to restrict or suspend production, orders to make recovery, orders to disclose relevant information or make an announcement, imposition of administrative action against relevant responsible persons, and orders to shut down enterprises. Any individual or entity that pollutes the environment resulting in damage could also be held liable under the PRC Civil Code (《中华人民共和国民法典》). Environmental organisations may also bring lawsuits against any entity that discharges pollutants detrimental to the public welfare. Where any violation of the provision of the Environmental Protection Law constitutes a crime, criminal liabilities shall be investigated in accordance with the PRC Criminal Law (《中华人民共和国刑法》).

Administrative Measures for the Restricted Use of Hazardous Substances in Electrical and Electronic Products

On 6 January 2016, eight (8) ministries and commissions of the PRC – the Ministry of Finance, the MOFCOM, the Ministry of Environmental Protection, the Ministry of Science and Technology, the MIIT, the General Administration of Customs, the NDRC, the General Administration of Quality Supervision, Inspection and Quarantine jointly promulgated the Administrative Measures for the Restricted Use of Hazardous Substances in Electrical and Electronic Products (《电器电子产品有害物质限制使用管理办法》) (the “**Administrative Measures for Hazardous Substances**”), which came into effect on 1 July 2016. Pursuant to the Administrative Measures for Hazardous Substances, the MIIT, the NDRC, the MOFCOM, the General Administration of Customs and the State Administration of Quality Supervision, Inspection and Quarantine shall administer and supervise the restricted use of the electrical and electronic products within the scope of their respective duties; further, the MIIT in consultation with relevant competent departments of the State Council, shall formulate measures favourable to the restricted use of hazardous substances in electrical and electronic products and ensure the implementation of relevant provisions on restricted use of hazardous substances in electrical and electronic products.

Designers and manufacturers of electrical and electronic products shall not violate mandatory standards, laws, regulations, and rules that must be complied with and shall meet the national or industrial standards for restricted use of hazardous substances in products; further, designers shall adopt a non-hazardous or low-hazardous solution in which the substances are easy to be degraded or convenient to be recycled. Manufacturers shall use materials, technologies, and techniques with high resource utilisation rate, promote the ease of recycling, are environmental-friendly and limit or eliminate use of hazardous substances in products. Manufacturers shall not allow electrical and electronic products that fail to meet the requirements stipulated in the Administrative Measures for Hazardous Substances to leave their factories or enter the markets.

Manufacturers of electrical and electronic products shall, according to the national or industrial standards for the restricted use of labels of hazardous substances in electrical and electronic products, label their products launched to the market with relevant information, including the name and content of all hazardous substances contained in the foresaid products, the components that contain such substances, whether such products may be recycled for utilisation, what impacts may be caused by the improper use or disposition on the environment and human health, etc. Manufacturers shall label the environment-friendly use period on the electrical and electronic products.

Retailers of electrical and electronic products shall not sell products that violate the national or industrial standards for the restricted use of hazardous substances contained in such products.

The MIIT, in consultation with the NDRC, the Ministry of Science and Technology, the Ministry of Finance, the Ministry of Environmental Protection, the MOFCOM, the General Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine, works out, adjusts and releases the catalogue that lists the restricted use of hazardous substances in electrical and electronic products according to the actualities of the industrial development. A conformity assessment mechanism for the restricted use of hazardous substances in electrical and electronic products shall be established. Electrical and electronic products included in the catalogue shall meet the national or industrial standards for the limited contents for hazardous substances in electrical and electronic products and be administered in accordance with such conformity assessment mechanism for the restricted use of hazardous substances in electrical and electronic products. The MIIT shall put forward the proposal of establishing a conformity assessment mechanism for the restricted use of hazardous substances in electrical and electronic products to the competent department of the certification and accreditation administration in accordance with the overall arrangement for the restricted use of hazardous substances contained in electrical and electronic products.

Regulation on Urban Drainage and Sewage Treatment

Pursuant to the Regulations on Urban Drainage and Sewage Disposal (《城镇排水与污水处理条例》), which was promulgated in October 2013 and came into effect in January 2014, and the Measures for the Administration of Permits for the Discharge of Urban Sewage into the Drainage Network (《城镇污水排入排水管网许可管理办法》), which was promulgated in January 2015 and came into effect in March 2015, drainage entities covered by urban drainage facilities shall discharge sewage into urban drainage facilities in accordance with the relevant provisions of the state. Where a drainage entity needs to discharge sewage into urban drainage facilities, it shall apply for a drainage licence in accordance with the provisions of these Measures. The drainage entity that has not obtained the drainage licence shall not discharge sewage into urban drainage facilities.

Regulations on Work Safety

Under relevant construction safety laws and regulations, including the Work Safety Law of the PRC (《中华人民共和国安全生产法》) which was promulgated by the SCNPC on 29 June 2002 and last amended on 10 June 2021, production and operating business entities must establish objectives and measures for work safety and improve the working environment and conditions for workers in a planned and systematic way. A work safety protection scheme must also be set up to implement the work safety job responsibility system. In addition, production and operating business entities must arrange work safety training and provide the employees with protective equipment that meets the national standards or industrial standards. Furthermore, production and operating business entities shall report their major hazard sources and related safety and emergency measures to the emergency management department and other relevant departments for the record, and establish a safety risk grading control system and take corresponding control measures. Telecommunication equipment manufacturers are subject to the above-mentioned environment protection and work safety requirements regulated by the Ministry of Ecology and Environment of the PRC, the Ministry of Emergency Management of the PRC (中华人民共和国应急管理部), its local counterparts, and the local people's governments.

REGULATIONS ON FOREIGN INVESTMENT IN THE PRC

Company Law

Companies established and businesses operating in the PRC are subject to the Company Law of the PRC (《中华人民共和国公司法》) (the “**PRC Company Law**”), which was promulgated by the SCNPC on 29 December 1993, last amended on 26 October 2018 and became effective on 26 October 2018. The PRC Company Law, regulated by SAMR, MOFCOM, and their local counterparts, provides general regulations for companies’ set up and operation in the PRC including the FIEs. Unless otherwise provided in the PRC Foreign Investment Law, the provisions in the PRC Company Law shall prevail.

In accordance with the PRC Company Law, a FIE is required to make appropriation to a Statutory Reserve Fund (the “**SRF**”). At least 10% of the statutory after-tax profits must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the company’s registered capital. The SRF may be used to offset any accumulated losses or increase the registered capital. The SRF is not available for dividend distribution to shareholders.

Foreign Investment Law

The establishment procedures, examination and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation, and labour matters of a wholly foreign-owned enterprise are governed by the Wholly Foreign-owned Enterprise Law of the PRC, which was promulgated by the SCNPC on 12 April 1986, last amended on 3 September 2016, became effective on 1 October 2016 and expired along with the Foreign Investment Law that came into force. Foreign Investment Law of the PRC, which was promulgated by the National People’s Congress of the PRC on 15 March 2019, and became effective on 1 January 2020, repealed simultaneously the Wholly Foreign-owned Enterprise Law, Sino-foreign Equity Joint Ventures Law of the PRC, Sino-foreign Cooperative Joint Ventures Law of the PRC, and their respective implementations. FIEs established prior to the Foreign Investment Law in accordance with the aforesaid laws may retain their original business forms for five (5) years after the Foreign Investment Law comes into force. The term “foreign investments”, according to the Foreign Investment Law, refers to investment activities within the PRC directly or indirectly conducted by foreign natural persons, enterprises, or other organisations (the “**foreign investors**”), including the following circumstances: (i) a foreign investor, alone or jointly with any other investors, forms a foreign-invested company within the PRC; (ii) a foreign investor acquires any shares, equities, portion of property, or other similar interests in a PRC domestic enterprise; (iii) a foreign investor, alone or jointly with any other investors, invests in any new PRC domestic project; (iv) the investments in any other manner as specified by laws, administrative regulations or provisions regulated by the State Council. The Foreign Investment Law stipulates that the PRC implements system of pre-establishment national treatment and negative list of foreign investment. The negative list, which would be issued by or upon approval by the State Council, refers to special administrative measures for access of foreign investment in specific fields in China. A foreign investor shall not invest in any field prohibited from foreign investment under the negative list. A foreign investor shall meet the investment conditions stipulated under the negative list for any restricted fields under the negative list. For fields not mentioned in such negative list, there shall be equal treatment of domestic and foreign investments. Foreign-invested enterprises can raise funds through public issuance of stocks, corporate bonds, and other securities in accordance with the law.

REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

Patent Law

According to the Patent Law of the PRC (《中华人民共和国专利法》) promulgated by the SCNPC on 12 March 1984 and currently effective from 1 June 2021, the State Intellectual Property Office is responsible for administering patent law in the PRC. The patent administration departments of provincial, autonomous regions or municipal governments are responsible for administering patent law within their respective jurisdictions. The Chinese patent system adopts a first-to-file principle, which means that when more than one (1) person files different patent applications for the same invention, only the person who files the application first is entitled to obtain a patent of the invention. To be patentable, an invention or a utility model must meet three (3) criteria: novelty, inventiveness, and practicability. The protection period is twenty years for an invention patent, ten years for a utility model patent and fifteen years for a design patent, commencing from their respective application dates.

Regulations on Copyright

The Copyright Law of the PRC (《中华人民共和国著作权法》) (the “**Copyright Law**”), promulgated by the SCNPC on 1 June 1991, which was last amended in 2020 and became effective on 1 June 2021, provides that Chinese citizens, legal persons, or other organisations shall, whether published or not, own copyright in their copyrightable works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. Copyright owners enjoy certain legal rights, including right of publication, right of authorship and right of reproduction. The Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, the Copyright Law provides for a voluntary registration system administered by the China Copyright Protection Centre. According to the Copyright Law, an infringer of copyright shall be subject to various civil liabilities, which include ceasing infringement activities, apologising to the copyright owners and compensating the losses of the copyright owners. Infringers of a copyright may also be subject to fines and/or administrative or criminal liabilities in severe situations.

Pursuant to the Computer Software Copyright Protection Regulations (《计算机软件保护条例》) promulgated by the State Council on 20 December 2001 and amended on 30 January 2013, the software copyright owner may go through the registration formalities with a software registration authority recognised by the State Council’s copyright administrative department. The software copyright owner may authorise others to exercise that copyright, and is entitled to receive remuneration.

Trademark Law

Trademarks are protected by the Trademark Law of the PRC (《中华人民共和国商标法》) which was promulgated by the SCNPC on 23 August 1982 and last amended in 2019, as well as by the Implementation Regulations of the PRC Trademark Law (《中华人民共和国商标法实施条例》) promulgated by the State Council in 2002 which was last amended on 29 April 2014. The Trademark Office under the State Administration for Market Regulation handles trademark registrations. The Trademark Office grants a ten-year term to registered trademarks and the term may be renewed for another ten-year period upon request by the trademark owner. A trademark registrant may licence its registered trademarks to another party by entering into trademark licence agreements, which must be filed with the Trademark Office for its record. As with patents, the Trademark Law has adopted a first-to-file principle with respect to trademark registration. If a trademark applied for is identical or similar to another trademark which has already been registered or subject to a preliminary examination and approval for use on the same or similar kinds of products or services, such trademark application may be rejected. Any person applying for the registration of a trademark may not injure existing trademark rights first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

Regulations on Domain Names

The MIIT promulgated the Measures on Administration of Internet Domain Names (《互联网域名管理办法》) (the “**Domain Name Measures**”) on 24 August 2017, which took effect on 1 November 2017. Pursuant to the Domain Name Measures, the MIIT oversees the administration of PRC internet domain names. The domain name registration follows a first-to-file principle. Applicants for registration of domain names must provide the true, accurate and complete information of their identities to domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

REGULATIONS ON TAXATION

Enterprise Income Tax

Pursuant to the EIT Law and the EIT Implementation Regulations, both resident enterprises and non-resident enterprises are subject to tax in the PRC regulated by the STA and its local counterparts. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or established in accordance with the laws of foreign countries but are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organised under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and the EIT Implementation Regulations, a uniform corporate income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from the PRC.

Value-added Tax

The Provisional Regulations of the PRC on Value-added Tax (《中华人民共和国增值税暂行条例》) were promulgated by the State Council on 13 December 1993, became effective on 1 January 1994 and were subsequently amended from time to time; and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) (《中华人民共和国增值税暂行条例实施细则(2011修订)》) were promulgated by the Ministry of Finance on 25 December 1993 and last amended on 28 October 2011 (collectively, the “**VAT Law**”). On 19 November 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax (《关于废止<中华人民共和国营业税暂行条例>和修改<中华人民共和国增值税暂行条例>的决定》) (the “**Order 691**”). On 20 March 2019, the Ministry of Finance, the State Taxation Administration and the General Administration of Customs jointly issued the Announcement on Relevant Policies on Deepening of the Reform of Value-added Tax (《关于深化增值税改革有关政策的公告》) (the “**Announcement 39**”). Pursuant to the VAT Law and the Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sale of services, intangible assets and real property, and the importation of goods within the territory of the PRC shall be liable to pay value-added tax (the “**VAT**”). According to Announcement 39, regulated by the STA and its local counterparts, the VAT tax rates generally applicable are simplified as 13%, 9%, 6% and 0%, which become effective on 1 April 2019, and the VAT tax rate applicable to the small-scale taxpayers is 3%.

Dividend Withholding Tax

The EIT Law provides that since 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Double Taxation Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Taxation Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《关于执行税收协定股息条款有关问题的通知》), issued on 20 February 2009 by the STA, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. According to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties (《关于税收协定中受益所有人有关问题的公告》), which was issued on 3 February 2018 by the State Taxation Administration and became effective on 1 April 2018, when determining the applicant’s status as the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including, without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in a third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant any tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and such factors will be analysed according to the actual circumstances of the specific cases.

This circular further provides that an applicant who intends to prove his or her status as the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Double Taxation Avoidance Arrangement.

REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

Labour Contract Law

The PRC Labour Contract Law, which was promulgated on 29 June 2007 and amended on 28 December 2012, is primarily aimed at regulating rights and obligations of employer and employee relationships, including the establishment, performance, and termination of labour contracts. Pursuant to the PRC Labour Contract Law regulated by the Ministry of Human Resources and Social Security and its local counterparts, labour contracts shall be concluded in writing if labour relationships are to be or have been established between employers and employees. If an employee is a part-time labour, which is a form of labour for which the remuneration is mainly calculated on an hourly basis, and the employee’s average daily working hours shall not exceed four (4) hours and the aggregate working hours per week shall not exceed twenty-four hours for the same employer, both parties to part-time labour may conclude an oral agreement. Either party to part-time labour may notify the other party at any time to terminate employment. Upon termination of employment, the employer will not have to pay severance pay to the employee.

Employers are prohibited from forcing employees to work above certain time limits and employers shall pay employees for overtime work in accordance with national regulations. In addition, employee wages shall be no lower than local standards on minimum wages and must be paid to employees in a timely manner.

Interim Provisions on Labour Dispatch

Pursuant to the Interim Provisions on Labour Dispatch promulgated and regulated by the Ministry of Human Resources and Social Security on 24 January 2014 and became effective on 1 March 2014, dispatched workers are entitled to equal pay with full-time employees for equal work. Employers are allowed to use dispatched workers for temporary, auxiliary, or substitutive positions, and the number of dispatched workers may not exceed 10% of the total number of employees. Pursuant to the PRC Labour Contract Law, if the employer violates the relevant labour dispatch regulations, the labour administrative department shall order it to make corrections within a prescribed time limit; if it fails to make corrections within the time limit, a penalty will be imposed on the basis of more than RMB5,000 and less than RMB10,000 per person.

Social Insurance and Housing Fund

As required under the Social Insurance Law, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企业职工生育保险试行办法》) implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《国务院关于建立统一的企业职工基本养老保险制度的决定》) issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《国务院关于建立城镇职工基本医疗保险制度的决定》) promulgated on 14 December 1998, the Unemployment Insurance Measures (《失业保险条例》) promulgated on 22 January 1999 and the Regulation of Insurance for Labour Injury (《工伤保险条例》) implemented on 1 January 2004 and amended in 2010, employers are required to provide their employees in the PRC with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance. These payments are made to local human resources and social security departments. Any employer that fails to make social insurance contributions may be ordered to rectify the non-compliance, pay the required contributions within a prescribed time limit and be subject to a late fee. If the employer still fails to rectify the failure to make the relevant contributions within the prescribed time, it may be subject to a fine ranging from one to three times of the amount overdue.

In accordance with the Regulations on the Administration of Housing Funds (《住房公积金管理条例》) which was promulgated by the State Council in 1999 and last amended in March 2019, employers must register at the designated administrative centres and open bank accounts for depositing employees' housing funds. Regulated by the Ministry of Housing and Urban-Rural Development of the PRC and its local housing fund administration centres, employers and employees are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of each employee in the preceding year in full and on time.

Employee Stock Incentive Plan

Pursuant to the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company (《国家外汇管理局关于境内个人参与境外上市公司股权激励计划外汇管理有关问题的通知》), which was issued by the SAFE on 15 February 2012, employees, directors, supervisors, and other senior management who participate in any stock incentive plan of a publicly-listed overseas company and who are PRC individuals or non-PRC individuals residing in China for a continuous period of no less than one (1) year, subject to a few exceptions, are required to register with the SAFE through a qualified domestic agent, which may be a PRC subsidiary of such overseas listed company, and complete certain other procedures.

In addition, the STA has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, employees working in the PRC who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are required to file documents relating to employee stock options and

restricted shares with relevant tax authorities and to withhold individual income taxes of employees who exercise their stock options or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

M&A RULES AND OVERSEAS LISTING

On 8 August 2006, six (6) PRC governmental and regulatory agencies, including the Ministry of Commerce and the CSRC, promulgated the M&A Rules governing the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and was revised on 22 June 2009. The M&A Rules, among other things, require that if an overseas company established or controlled by PRC companies or individuals (the “**PRC Citizens**”) intends to acquire equity interests or assets of any other PRC domestic company affiliated with the PRC Citizens, such acquisition must be submitted to the Ministry of Commerce for approval. The M&A Rules also require that an offshore special vehicle, or a special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by the PRC companies or individuals, shall obtain the approval of the CSRC prior to overseas listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

On 24 December 2021, the CSRC released the Draft Administration Provisions and the Draft Filing Measures, both of which had a period for public comment that expired on 23 January 2022. The Draft Administration Provisions and the Draft Filing Measures regulate the system, filing, management, and other related rules with respect to direct or indirect overseas issuance of listed and traded securities by “domestic enterprises”. Pursuant to the Draft Administration Provisions, these provisions shall apply to domestic enterprises that issue shares, depository receipts, convertible corporate bonds or other equity instruments overseas, or list and trade their securities overseas, and the CSRC shall supervise and administer the overseas securities offering and listing activities of domestic enterprises, and such domestic enterprises shall go through the filing procedures with the CSRC and report relevant information. According to the Draft Administration Provisions and the Draft Filing Measures, domestic enterprises offering and listing overseas will need to comply with continuous filing and reporting requirements after such offering and listing, including (i) a reporting obligation in respect of a material event completed after the completion of an overseas offering and listing, which arose prior to such offering and listing; (ii) filing for follow-on offerings after the initial offering and listing; (iii) filing for share exchanges whereby the issuer issues securities to acquire assets; and (iv) a reporting obligation for material events after the initial offering and listing. The Draft Administration Provisions clarify that the first actor responsible for compliance for an overseas issuance and listing of a domestic enterprise is the domestic enterprise itself. With respect to the domestic enterprises, non-compliance with the Draft Administration Provisions or an overseas listing completed in breach of them may result in a warning or a fine of RMB one million to ten million. Under severe circumstances, domestic enterprises may be ordered to suspend their business or suspend their business pending rectification, or their permits or businesses licence may be revoked. Furthermore, the controlling shareholders, actual controllers, directors, supervisors, and other legally appointed persons of the domestic enterprises may be warned, or fined between RMB five hundred thousand to RMB five million either individually or collectively. If, during the filing process, the domestic enterprises conceal important factors or the content is materially false, and securities are not issued, they are subject to a fine of RMB one million to ten million. If the securities have been issued, the domestic enterprise is subject to a fine of ten percent of all the listing proceeds. With respect to the controlling shareholders, actual controllers, directors, supervisors, and other legally appointed persons, they are subject to a warning and fine between RMB five hundred thousand and RMB five million, individually or collectively.

On 2 April 2022, the CSRC released the Circular on Seeking Public Comments on the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (Draft for Comments) (the “**Draft Archives Rules**”). The Draft Archives Rules were open for public consultations until 17 April 2022. The Draft Archives Rules includes both overseas direct offerings and overseas indirect offerings. The Draft Archives Rules provides that, among other things, (i) in relation to the overseas listing activities of domestic enterprises, the domestic enterprises are required to strictly comply with the relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities; (ii) during the course of an overseas offering and listing, if a domestic enterprise needs to publicly disclose or provide to securities companies, accounting firms or other securities service providers and overseas regulators, any materials that contain relevant state secrets or that have a sensitive impact (i.e. be detrimental to national security or the public interest if divulged), the domestic enterprise should complete the relevant approval/filing and other regulatory procedures; and (iii) working papers produced in the PRC by securities companies and securities service institutions, which provide domestic enterprises with securities services during their overseas issuance and listing, should be stored in the PRC, and the transmission of all such working papers to recipients outside of the PRC is required to be approved by competent authorities of the PRC.

If the Draft Archives Rules are adopted in exactly the same form as its current form, it should not materially hinder the provision of information by us to the SGX-ST and/or Singapore regulatory authorities, provided that we will comply with any necessary procedures as advised by our PRC Legal Adviser to the Company, especially in respect of the approval procedures of the provision of materials containing “state secrets and government work secrets” and “accounting archives or copies thereof which have important preservation value to the nation and the public”.

As at the date of this Introductory Document, as advised by our PRC Legal Adviser to the Company, there are uncertainties as to the definition and/or scope of “state secrets and government work secrets” and “important preservation value”. In addition, as the Draft Archives Rules have not been formally adopted yet, as at the date of this Introductory Document, it is uncertain when the final provisions will be issued and take effect, how they will be enacted, interpreted and implemented, and whether or to what extent they will affect the Introduction. The PRC Legal Adviser to the Company has confirmed that there are no explicit PRC laws and regulations currently in effect which prohibit our Company’s Introduction on the SGX-ST, and our Company’s Introduction is not subject to regulatory filing or approval from the appropriate PRC authorities (including the CSRC).

REGULATIONS ON FOREIGN EXCHANGE

General Principles of Foreign Exchange

Under the Regulations on the Administrative Regulations on Foreign Exchange of the PRC (《中华人民共和国外汇管理条例》) promulgated on 29 January 1996 and most recently amended on 5 August 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office.

Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a

cap set by the SAFE or its local branch. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from the SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to the SAFE Circular 59, approval of SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. The SAFE Circular 59 also simplifies foreign exchange-related registration required for the foreign investors to acquire the equity interests of Chinese companies and further improve the administration on foreign exchange settlement for foreign-invested enterprises.

The SAFE Circular 13, effective from 1 June 2015, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure for foreign exchange-related registration. Pursuant to SAFE Circular 13, the investors shall register with banks for direct domestic investment and direct overseas investment.

The SAFE Circular 19, which was promulgated by the SAFE on 30 March 2015 and amended on 30 December 2019, provides that a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account). Pursuant to SAFE Circular 19, for the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capital on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the foreign-invested enterprise must first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered.

The SAFE Circular 16, which was promulgated by the SAFE and became effective on 9 June 2016, provides that enterprises registered in the PRC may also convert their foreign debts from foreign currency into Renminbi on a self-discretionary basis. SAFE Circular 16 also provides an integrated standard for conversion of foreign exchange under capital account items (including, but not limited to, foreign currency capital and foreign debts) on a self-discretionary basis, which applies to all enterprises registered in the PRC.

According to the Administrative Rules on the Registration of Market Entities of PRC (《中华人民共和国市场主体登记管理条例》), which were promulgated by the State Council on 27 July 2021 and became effective on 1 March 2022, and other laws and regulations governing the foreign-invested enterprises and company registrations, the establishment of a foreign-invested enterprise and any capital increase and other major changes in a foreign-invested enterprise shall be registered with the SAMR or its local counterparts, and shall be filed via the foreign investment comprehensive administrative system (the “**FICMIS**”), if such foreign-invested enterprise does not involve special access administrative measures prescribed by the PRC government.

On 23 October 2019, SAFE issued the Circular on Further Promoting Cross-border Trade and Investment Facilitation (《关于进一步促进跨境贸易投资便利化的通知》). This circular allows the foreign-invested enterprises without equity investment as in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investment as long as the investments are real and in compliance with the foreign investment-related laws and regulations. In addition, this circular stipulates that qualified enterprises in certain pilot areas may use their capital income from registered capital, foreign debt and overseas listing for the purpose of domestic payments without providing authenticity certifications to the relevant banks in

advance of those domestic payments. Payments for transactions that take place within the PRC must be made in RMB. Foreign currency revenues received by PRC companies may be repatriated into the PRC or retained outside of the PRC in accordance with requirements and terms specified by SAFE.

Pursuant to SAFE Circular 13 and other laws and regulations relating to foreign exchange, when setting up a new foreign-invested enterprise, the foreign-invested enterprise shall register with the bank located at its registered place after obtaining the business licence, and if there is any change in capital or other changes relating to the basic information of the foreign-invested enterprise, including, without limitation, any increase in its registered capital or total investment, the foreign-invested enterprise must register such changes with the bank located at its registered place after obtaining approval from or completing the filing with competent authorities. Pursuant to the relevant foreign exchange laws and regulations, the above-mentioned foreign exchange registration with the banks will typically take less than four (4) weeks upon the acceptance of the registration application.

Based on the foregoing, if we intend to provide funding to our wholly foreign-owned subsidiaries through capital injection at or after their establishment, we must register the establishment of and any follow-on capital increase in our wholly foreign-owned subsidiaries with the SAMR or its local counterparts, file such capital increase via the FICMIS and register such capital increase with the local banks for the foreign exchange related matters.

Loans by the Foreign Companies to their PRC Subsidiaries

A loan made by foreign investors as shareholders in a foreign-invested enterprise is considered to be foreign debt in China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration (《中华人民共和国外汇管理条例》), the Interim Provisions on the Management of Foreign Debts (Revised in 2022) (《外债管理暂行办法(2022修订)》), the Statistical Monitoring of Foreign Debts Tentative Provisions (Revised in 2020) (《外债统计监测暂行规定(2020修订)》), the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt (《外债统计监测实施细则》), and the Administrative Measures for Registration of Foreign Debts (《外债登记管理办法》). Under these rules and regulations, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of the SAFE. However, such foreign debt must be registered with and recorded by the SAFE or its local branch within 15 business days after entering into the foreign debt contract. Pursuant to these rules and regulations, the balance of the foreign debts of a foreign-invested enterprise shall not exceed the difference between the total investment and the registered capital of the foreign-invested enterprise (the **"Total Investment and Registered Capital Balance"**).

On 12 January 2017, the People's Bank of China (the **"PBOC"**) promulgated the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing (《中国人民银行关于全口径跨境融资宏观审慎管理有关事宜的通知》) (the **"PBOC Notice No. 9"**). Pursuant to PBOC Notice No. 9, within a transition period of one (1) year from 12 January 2017, foreign-invested enterprises may adopt the currently valid foreign debt management mechanism (the **"Current Foreign Debt Mechanism"**), or the mechanism as provided in PBOC Notice No. 9 (the **"Notice No. 9 Foreign Debt Mechanism"**), at their own discretion. PBOC Notice No. 9 provides that enterprises may conduct independent cross-border financing in RMB or foreign currencies as required. Pursuant to PBOC Notice No. 9, the outstanding cross-border financing of an enterprise (the outstanding balance drawn, here and below) shall be calculated using a risk-weighted approach (the **"Risk-Weighted Approach"**), and shall not exceed certain specified upper limits. PBOC Notice No. 9 further provides that the upper limit of risk-weighted outstanding cross-border financing for enterprises shall be equal to 200% of its net assets multiplied by macro-prudential regulation parameter (the **"Net Asset Limits"**). The macro-prudential regulation parameter shall be filed with the SAFE in its capital item information system after entering into the relevant cross-border financing contracts and prior to three (3) business days before drawing any money from the foreign debts.

Based on the foregoing, if we provide funding to our wholly foreign-owned subsidiaries through shareholder loans, the balance of such loans shall not exceed the Total Investment and Registered Capital Balance and we will need to register such loans with the SAFE or its local branches in the event that the Current Foreign Debt Mechanism applies, or the balance of such loans shall be subject to the Risk-Weighted Approach and the Net Asset Limits and we will need to file the loans with the SAFE in its information system in the event that the Notice No. 9 Foreign Debt Mechanism applies. According to PBOC Notice No. 9, after a transition period of one (1) year from 11 January 2017, the PBOC and the SAFE will determine the cross-border financing administration mechanism for the foreign-invested enterprises after evaluating the overall implementation of PBOC Notice No. 9. As of the date hereof, neither the PBOC nor the SAFE has promulgated or made public any further rules, regulations, notices or circulars in this regard. It is uncertain which mechanism will be adopted by the PBOC and the SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries.

REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends of foreign-invested enterprises include Foreign Investment Law (《中华人民共和国外商投资法》) and the PRC Company Law regulated by SAMR, MOFCOM, and their local counterparts, wholly foreign-owned enterprises and Sino-foreign equity joint ventures in the PRC may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Additionally, these foreign-invested enterprises may not pay dividends unless they set aside at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds, until such time as the accumulative amount of such fund reaches 50% of the enterprise's registered capital. In addition, these companies also may allocate a portion of their after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends.

HONG KONG

This section sets forth a summary of certain laws and regulations which are relevant to our Group's business in Hong Kong. Information contained in this section should not be construed as a comprehensive summary of the laws and regulations applicable to our Group.

Import and Export (Registration) Regulations (Cap. 60E of the Laws of Hong Kong) (the "Import and Export (Registration) Regulations")

The Import and Export (Registration) Regulations provide that every person who imports or exports any article other than an exempted article shall lodge an accurate and complete import or export declaration relating to such article with the Commissioner of Customs and Excise within 14 days after the importation or exportation of the article.

Any person who fails or neglects to declare within 14 days after importation or exportation without reasonable excuse is liable to a fine of HK\$2,000 upon summary conviction and commencing on the day following the date of conviction, a fine of HK\$100 in respect of every day during which his failure or neglect to lodge such declaration continues. Furthermore, any person who knowingly or recklessly lodges any declaration with the Commissioner of Customs and Excise that is inaccurate in any material particular shall be guilty of an offence and liable to a fine of HK\$10,000 on summary conviction.

Further, a penalty is payable for any person who does not lodge the declaration within 14 days after the importation or exportation. If the total value of articles specified in a declaration does not exceed HK\$20,000, the penalty payable will be: (i) HK\$20 for lodgement of declaration after 14 days but within one (1) month and 14 days after the importation or exportation; (ii) HK\$40 for lodgement of declaration after one (1) month and 14 days but within two (2) months and 14 days after importation or exportation; and (iii) HK\$100 for lodgement of declaration after two (2) months and 14 days after the importation or exportation. If the total value of articles specified in a declaration exceeds HK\$20,000, the aforesaid penalty charges will be doubled to HK\$40, HK\$80 and HK\$200 respectively.

Telecommunications Ordinance (Cap. 106 of the Laws of Hong Kong) (the “Telecommunications Ordinance”)

The Telecommunications Ordinance requires (among other things) any person who deals in or demonstrates with a view to sale, in the course of trade or business, radiocommunications apparatus or material to obtain a permit, unless he is a holder of a licence which permits him to possess and deal in the course of business in apparatus or material for radiocommunication.

Failure to obtain the requisite licence is an offence and the offender is liable on summary conviction to a fine of HK\$50,000 and to imprisonment for two (2) years; and on conviction on indictment to a fine of HK\$100,000 and to imprisonment for five (5) years. A director or other officer of a corporate offender may be liable to the same offence and penalty if he consented or connived to the commission of the offence by the company.

Certain radiocommunications apparatus satisfying the specified technical criteria are exempted from the above licensing requirement by the Telecommunications (Telecommunications Apparatus) (Exemption from Licensing) Order (Cap. 106Z of the Laws of Hong Kong).

The Communications Authority is an independent statutory body established under the Communications Authority Ordinance and is empowered to perform its functions under the Telecommunications Ordinance.

Sale of Goods Ordinance (Cap. 26 of the Laws of Hong Kong) (the “SOGO”)

The SOGO codifies the law relating to the sale of goods in Hong Kong. In general, where the seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality. Where the seller sells goods in the course of a business and the buyer, expressly or by implication, makes known to the seller any particular purpose for which the goods are being bought, there is an implied condition that the goods supplied under the contract are reasonably fit for that purpose, whether or not that is a purpose for which such goods are commonly supplied, except where the circumstances show that the buyer does not rely, or that it is unreasonable for him to rely, on the seller’s skill or judgement.

Where a contract for the sale of goods is by description, there is an implied condition that the goods shall correspond with the description. In the case of a contract for sale by sample, there is an implied condition that: (a) the bulk shall correspond with the sample in quality; (b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample; and (c) the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample. If the sale is by sample, as well as by description, it is not sufficient that the bulk of the goods corresponds with the sample if the goods do not also correspond with the description.

Trade Descriptions Ordinance (Cap. 362 of the Laws of Hong Kong) (the “TDO”)

Under the TDO, (a) use of false trade descriptions; (b) false, misleading or incomplete information, (c) false marks and misstatements in respect of products, and (d) false trade descriptions in respect of services supplied are prohibited. In addition, the TDO makes certain trade practices a criminal offence, namely: (i) misleading omission; (ii) aggressive commercial practices; (iii) bait advertising; (iv) bait and switch; and (v) wrongly accepting payment. The TDO also provides for offences relating to forged trade mark, and falsely applying of trademark or resembling marks. The Commissioner of Customs and Excise is the principal enforcement agency but for trade practices relating to telecommunications and broadcasting, the related provisions under the TDO are enforced by the Communications Authority.

Supply of Services (Implied Terms) Ordinance (Cap. 457 of the Laws of Hong Kong) (the “Supply of Services (Implied Terms) Ordinance”)

Under the Supply of Services (Implied Terms) Ordinance, certain terms are implied in the contracts for the supply of services, including: (a) that the supplier will carry out the service with reasonable care and skill; (b) that the supplier will carry out the service within a reasonable time (if the time of service is not fixed by the contract, not left to be fixed in a manner agreed by the contract or not determined by the course of dealing between the parties); and (c) that the party contracting with the supplier will pay a reasonable charge (if the consideration is not determined by the contract, is not left to be determined in a manner agreed by the contract or is not determined by the course of dealing between the parties).

Unconscionable Contracts Ordinance (Cap. 458 of the Laws of Hong Kong) (the “Unconscionable Contracts Ordinance”)

Under the Unconscionable Contracts Ordinance, if the Hong Kong court finds a contract for sale of goods or supply of services (in which one of the parties deals as consumer) to have been unconscionable in the circumstances relating to the contract at the time it was made, the court may: (a) refuse to enforce the contract; (b) enforce the remainder of the contract without the unconscionable part; (c) limit the application of, or revise or alter, any unconscionable part to avoid any unconscionable result.

Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong) (the “OSHO”)

The OSHO provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health at work of all the employers’ employees by, without limitation:

- providing and maintaining plant and systems of work that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage and/or transport of plant and/or substances;
- providing all necessary information, instruction, training and supervision for ensuring safety and health at work;
- as regards any workplaces under the employers’ control, maintaining the workplaces in a condition that is safe and without risks to health, or providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a working environment that is safe and without risks to health for the employees.

Failure to comply with any of the above requirements constitutes an offence and the employer is liable on conviction to a maximum fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a maximum fine of HK\$200,000 and to a maximum imprisonment for six (6) months.

Further, the Commissioner for Labour may, at its discretion, serve an improvement notice against non-compliance of the OSHO and/or a suspension notice against activity undertaken on the premises where a workplace is located which may create imminent risk of death or serious bodily injury. Failure to comply with an improvement notice or contravention of a suspension notice without reasonable excuse constitutes an offence punishable by a maximum fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months (and in the case of a suspension notice, knowing and intentional continuation of such contravention will attract a further fine of HK\$50,000 for each day or part of a day during the contravention).

Employees' Compensation Ordinance (Cap. 282 of the Laws of Hong Kong) (the "ECO")

The ECO establishes a no-fault and non-contributory employee compensation system for work injuries, and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the ECO, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is, in general, liable to pay compensation, even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, under the ECO, an employee who suffers incapacity or dies arising from an occupational disease and is due to the nature of any employment in which the employee was employed at any time within the prescribed period immediately preceding such incapacity or death, is (subject to modifications under the ECO) entitled to receive the same compensation as that payable to employees injured in occupational accidents.

Under section 40 of the ECO, all employers are required to take out insurance policies to cover their liabilities under the laws (including the common law) for injuries at work in respect of all their employees (including full-time and part-time employees). An employer who fails to comply with the ECO to secure an insurance cover commits an offence and is liable on conviction upon indictment to a maximum fine of HK\$100,000 and to imprisonment for up to two (2) years and on a summary conviction to a maximum fine of HK\$100,000 and to imprisonment for up to one (1) year.

According to section 15(1) of the ECO, an employer shall report any accident which results in the death of the employee within three days after the accident to the Commissioner of Labour not later than seven days after the accident, irrespective of whether the accident gives rise to any liability to pay compensation. According to section 15(1A) of the ECO, an employer shall report any accident which results in the total or partial incapacity of the employee to the Commissioner of Labour not later than 14 days after the accident, irrespective of whether the accident gives rise to any liability to pay compensation.

According to section 48 of the ECO, an employer shall not, without the consent of the Commissioner for Labour, terminate, or give notice to terminate, the contract of service of an employee (who has suffered incapacity in circumstances which entitle him to compensation under the ECO) before occurrence of certain prescribed events. Any person who commits a breach of this provision is liable on conviction to a maximum fine of HK\$100,000.

Employment Ordinance (Cap. 57 of the Laws of Hong Kong) (the “EO”)

The EO provides various employment-related benefits and entitlements to employees. All employees covered by the EO, irrespective of their hours of work, are entitled to basic protection under the EO including, among others, payment of wages (which is defined under the EO to include, among others, remuneration and overtime pay), restrictions on wages deductions and granting of statutory holidays. Employees who are employed under a continuous contract may be further entitled to such benefits as rest days, paid annual leave, sickness allowance, severance payment and long service payment.

Under section 25 of the EO, where a contract of employment is terminated, any sum due to the employee (other than severance payment, if any) shall be paid to him as soon as it is practicable and, in any case, not later than seven (7) days after the day of termination. Any employer who wilfully and without reasonable excuse contravenes section 25 of the EO commits an offence and is liable to a maximum fine of HK\$350,000 and to imprisonment for a maximum of three (3) years. Further, under section 25A of the EO, if any wages or any sum referred to in section 25(2)(a) of the EO are not paid within seven (7) days from the day on which they become due, the employer shall pay interest at a specified rate on the outstanding amount of wages or sum from the date on which such wages or sum become due up to the date of actual payment. Any employer who wilfully and without reasonable excuse contravenes section 25A of the EO commits an offence and is liable on conviction to a maximum fine of HK\$10,000.

Occupiers Liability Ordinance (Cap. 314 of the Laws of Hong Kong) (the “OLO”)

The OLO regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The OLO imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong) (the “MWO”)

The MWO provides for a statutory minimum wage level for every employee employed under the EO, save and except for those specified under sections 7(2), (3), (4) and (5) of the MWO. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the MWO is void. The Minimum Wage Commission is established under section 11 of the MWO and its main function is, when required by the Chief Executive of the Hong Kong Special Administrative Region, to report to the Hong Kong Chief Executive in Council its recommendations on the amount of the prescribed minimum hourly wage rate.

Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) (the “MPFSO”)

The MPFSO provides that an employer shall enrol their regular employees (except for certain exempt persons) aged at least 18 but under 65 years of age and employed for 60 days or more in a Mandatory Provident Fund (“MPF”) scheme within the first 60 days of employment.

For both employees and employers, it is mandatory to make regular contributions to a MPF scheme. For an employee, subject to the maximum and minimum levels of income (HK\$30,000 and HK\$7,100 per month, respectively on or after 1 June 2014), an employer will deduct 5% of the relevant income on behalf of an employee as mandatory contributions to a registered MPF scheme with a ceiling of HK\$1,500 on or after 1 June 2014. An employer will also be required to contribute an amount equivalent to 5% of an employee’s relevant income to the MPF scheme, subject only to the maximum level of income (HK\$30,000 on or after 1 June 2014). The Mandatory Provident Fund Schemes Authority established under the MPFSO regulates the operations of MPF schemes in accordance with the provisions under the MPFSO.

Business Registration Ordinance (Cap. 310 of the Laws of Hong Kong) (the “BRO”)

The BRO requires every entity that carries on a business in Hong Kong to apply for business registration with the Business Registration Office of the Inland Revenue Department within one (1) month from the date of commencement of the business, and to display a valid business registration certificate at the place of business.

Trade Marks Ordinance (Cap. 559 of the Laws of Hong Kong) (the “TMO”)

The TMO provides for the registration of trademarks, the use of registered trademarks and connected matters. Hong Kong provides territorial protection for trademarks. Therefore, trademarks registered in other countries or regions are not automatically entitled to protection in Hong Kong. In order to enjoy protection by the laws of Hong Kong, trademarks must be registered with the Trade Marks Registry of the Intellectual Property Department under the TMO and the Trade Marks Rules (Cap. 559A of the Laws of Hong Kong) (the “**Trade Marks Rules**”).

According to section 10 of the TMO, a registered trademark is a property right acquired through due registration under such ordinance. The owner of a registered trademark has the rights and is entitled to the remedies provided by the TMO.

Our Group is the registered owner and proprietor of the trademarks as set out in the section entitled “*Business – Intellectual Property*” of this Introductory Document. Pursuant to section 14 of the TMO, the owner of a registered trademark is conferred exclusive rights in the trademark. The rights of the owner in respect of the registered trademark have effect from the date of the registration of the trademark which is the filing date of the application for registration, according to section 48 of the TMO.

Subject to the exceptions in section 19 to section 21 of the TMO, any use of trademark by third parties without the consent of the registered owner is an infringement of the trademark. Conducts which amount to infringement of the registered trademark are further specified in section 18 of the TMO. Under section 23 and section 25 of the TMO, an infringement proceeding will be conducted if an infringement of trademark takes place and the registered owner is entitled to remedies under the TMO.

Trademarks which are not registered under the TMO and the Trade Marks Rules may still be protected by the common law action of passing off, which requires proof of the owner’s reputation in the unregistered trademark and that use of the trademark by third parties will cause damage to the owner.

Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong) (the “IRO”)

The IRO is an ordinance for the purposes of imposing taxes on property, earnings and profits in Hong Kong. The IRO provides, among other things, that persons, which include corporations, partnerships, trustees and bodies of persons, carrying on any trade, profession or business in Hong Kong are chargeable to tax on all profits (excluding profits from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business. The IRO also contains provisions relating to, among other things, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciation.

Under section 52(2) of the IRO, every person who is an employer shall, when required to do so by notice in writing given by an assessor appointed under the IRO, furnish a return of all persons employed by him in receipt of remuneration in excess of a minimum figure to be fixed by the assessor or any other person employed by him named by the assessor.

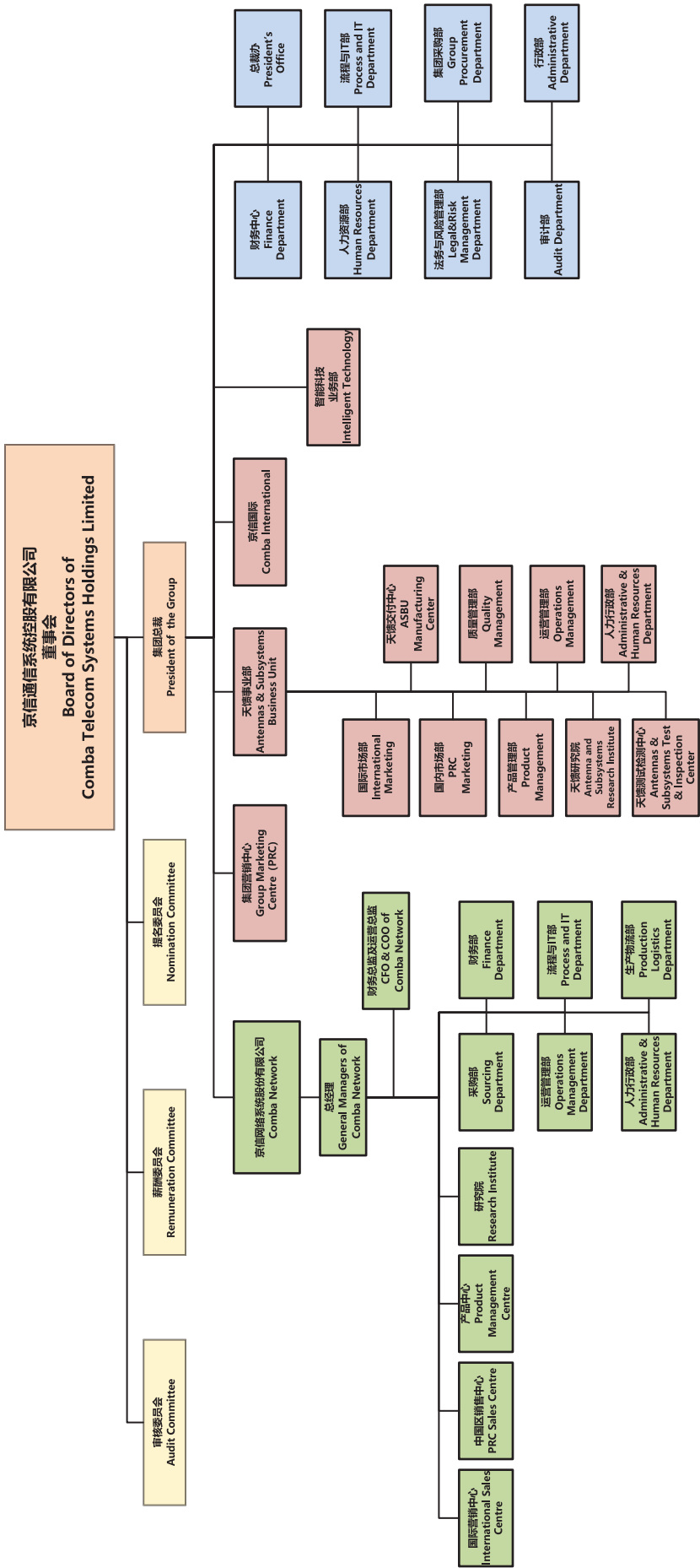
In addition, under section 52(4) of the IRO, where any person who is an employer commences to employ in Hong Kong an individual who is or is likely to be chargeable to tax under Part 3 of the IRO, or any married person, he shall give notice thereof in writing to the Commissioner of Inland Revenue not later than three months after the date of commencement of such employment. Under section 52(5) of the IRO, where any person who is an employer ceases or is about to cease to employ in Hong Kong an individual who is or is likely to be chargeable to tax under Part 3 of the IRO, or any married person, he shall give notice thereof in writing to the Commissioner of Inland Revenue not later than one month before such individual ceases to be employed in Hong Kong.

Section 20A of the IRO gives the Inland Revenue Department (the “**IRD**”) wide powers to collect tax due from non-residents. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO, making additional assessments under section 60 of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO.

MANAGEMENT AND CORPORATE GOVERNANCE

MANAGEMENT REPORTING STRUCTURE

The following diagram illustrates the management reporting structure of our Company:



DIRECTORS AND EXECUTIVE OFFICERS

Directors

Our Directors are entrusted with the responsibility for the overall management of our Group, with our day-to-day operations being entrusted to our Executive Directors and Executive Officers. The following table sets out information regarding our Directors as of the date of this Introductory Document.

Name	Age	Position	Address
Mr. Fok Tung Ling (霍东龄)	66	Chairman and Executive Director	c/o Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong
Mr. Zhang Yue Jun (张跃军)	64	Vice Chairman and Executive Director	c/o No. 10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China
Mr. Xu Huijun (徐慧俊)	49	Executive Director and President of our Group	c/o No. 10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China
Mr. Chang Fei Fu (张飞虎)	48	Executive Director and Group CFO	c/o Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong
Mr. Bu Binlong (卜斌龙)	59	Executive Director and Senior Vice President of our Group	c/o No. 10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China
Ms. Huo Xinru (霍欣茹)	38	Executive Director and Senior Vice President of our Group	c/o Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong
Mr. Wu Tielong (吴铁龙)	59	Non-executive Director	c/o No.10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China
Mr. Lau Siu Ki, Kevin (刘绍基)	64	Independent Non-executive Director	c/o Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong
Dr. Lin Jin Tong (林金桐)	76	Independent Non-executive Director	c/o Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong
Ms. Ng Yi Kum (伍绮琴)	65	Independent Non-executive Director	c/o Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong
Ms. Wong Lok Lam (王洛琳)	37	Independent Non-executive Director	c/o Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong

Information regarding the areas of responsibility and working experience of our Directors and Executive Officers is set out below.

Mr. Fok Tung Ling (霍东龄), aged 66, is one of the founders of our Group. He is the chairman of our Board and an authorised representative of our Company. He also holds various positions in the subsidiaries of our Company. Mr. Fok Tung Ling is primarily responsible for leading our Board in determining the directions of our Group's overall strategies and business development. From 1982 to 1987, Mr. Fok Tung Ling worked as a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (广东省邮电局微波通信总站). In 1986, he graduated from Beijing Institute of Posts and Telecommunications (北京邮电学院) (currently known as Beijing University of Posts and Telecommunications (北京邮电大学)), majoring in microwave communications. Prior to 1991, Mr. Fok Tung Ling worked as a marketing executive in China National Electronics Import & Export Corporation, South China Branch (中国电子进出口有限公司华南分公司) which was engaged in the import and export of electronic products. From 1991 to 1997, he was engaged in the trading of telecommunications and electronic equipment and components before co-founding our Group in 1997. Mr. Fok Tung Ling has over 41 years of experience in the wireless communications industry. He is the sole director and shareholder of Prime Choice Investments Limited, which is a Controlling Shareholder of our Company. Mr. Fok Tung Ling is the father of Ms. Huo Xinru.

Mr. Zhang Yue Jun (张跃军), aged 64, is one of the founders of our Group. He is the vice chairman of our Board. He also holds various positions in the subsidiaries of our Company. He also acted as the president of our Group from 1 October 2011 to 7 December 2018. Mr. Zhang Yue Jun is mainly responsible for assisting the Chairman in the latter's performance of his duties and responsibilities, also taking on the important role of monitoring the implementation of our Company's strategies. Mr. Zhang Yue Jun graduated from South China Institute of Technology (华南工学院) (currently known as South China University of Technology (华南理工大学)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang Yue Jun worked as a microwave telecommunication engineer in Nanjing and from 1990 to 1997, he was the deputy chief engineer of a joint venture company in Shenzhen and was mainly responsible for wireless telecommunications projects. Mr. Zhang Yue Jun has over 40 years of experience in wireless communications and he co-founded our Group in 1997. He is the sole director and shareholder of Wise Logic Investments Limited, which is a substantial shareholder of our Company.

Mr. Xu Huijun (徐慧俊), aged 49, is an executive director of our Company and the president of our Group. He also holds various positions in the subsidiaries of our Company. Mr. Xu Huijun is mainly responsible for our Group's overall operation, management, business development, research and development of new technologies and products and supply chain system. Mr. Xu Huijun graduated from Tsinghua University in 1998 with a master's degree in engineering and joined Zhongxing Telecommunication Equipment Corporation ("ZTE") in the same year. He served as system engineer, project manager, deputy head and head of the Beijing Research Centre of ZTE from 1998 to 2003. He was the senior vice president of ZTE from 2004 to March 2016, having been in charge of the General Product Division, Engineering Services under the Sales System, Engineering Service Division and Wireless Product Division. He was the executive vice president and chief technology officer (CTO) of ZTE from April 2016 to July 2018, being fully in charge of the operation of system products and management of research and development. Mr. Xu Huijun has over 24 years of management experience in telecommunications equipment industry. Mr. Xu Huijun joined our Group in August 2018.

Mr. Chang Fei Fu (张飞虎), aged 48, is an executive director of our Company and our group chief financial officer. He is also an authorised representative of our Company. Mr. Chang Fei Fu holds various positions in the subsidiaries of our Company. He is mainly responsible for the overall financial management of our Group, as well as listed company related matters and investor relations duties. Mr. Chang Fei Fu obtained a master's degree in engineering economic systems from Stanford University, the USA in 1996 and a bachelor's degree in electrical engineering from the University of Michigan, the USA in 1995. He has over 25 years of experience in corporate finance, mergers and acquisitions, financial analysis, research, capital markets and asset

management. Prior to joining our Group, Mr. Chang Fei Fu worked in financial institutions and corporations in Hong Kong, China and Japan, including the HKSE, Merrill Lynch Securities (currently known as BofA Securities, Inc.) (Hong Kong and Tokyo), Rockhampton Management (Tokyo), and Barclays Capital (Hong Kong). During 2011, Mr. Chang Fei Fu joined China Mobile Games and Entertainment Group Limited (the “**CMGE Group**”) in the founding member team as an executive director and chief financial officer. He led CMGE Group to its listing on the United States NASDAQ Stock Exchange in September 2012, conducted a series of equity fund raisings, as well as its subsequent privatisation. Mr. Chang Fei Fu left CMGE Group in August 2015 after the company completed its privatisation. Mr. Chang Fei Fu then joined ule.com (an e-commerce platform jointly launched by TOM Group Limited and China Post) as a senior vice president in finance in September 2015. Mr. Chang Fei Fu joined our Group in 2016.

Mr. Bu Binlong (卜斌龙), aged 59, is an executive director of our Company. He is also senior vice president of our Group and chief scientist of antenna and subsystem business unit (“**ASBU**”) business lines and in-charge of the ASBU and the group procurement centre. Mr. Bu Binlong is also acting as director of a subsidiary of our Company. He graduated in 1985 from Northwest Telecommunication Engineering Institute (currently known as Xidian University) and obtained a master’s degree in electronic magnetic field and microwave technology from Xidian University in 2002. Mr. Bu Binlong has over 37 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He was appointed as an adjunct professor of the key laboratory for antenna and electromagnetic compatibility of Xidian University in 2010, elected as the vice chairman of the Communication Antenna Special Committee of the Antenna Branch of Chinese Institute of Electronics in 2011, elected as the vice chairman of the Antenna System Industry Alliance of the PRC in 2017, and appointed as the vice chairman of the Antenna and Radio Frequency Technology Committee under China Institute of Communications in 2018. Mr. Bu Binlong joined our Group in 2003.

Ms. Huo Xinru (霍欣茹), aged 38, is an executive director of our Company. She is also senior vice president of our Group and president of Comba Telecom Systems International Limited. Ms. Huo Xinru also holds various positions in the subsidiaries of our Company. She is mainly responsible for the relevant management work delegated by our Group and the operation and management of Comba Telecom Systems International Limited. Ms. Huo Xinru graduated from Imperial College London in UK in 2007 majoring in electrical and electronic engineering, and obtained a bachelor’s degree; graduated from Stanford University in the USA in 2009 majoring in (electrical engineering) digital signal processing, and obtained a master’s degree. She has served successively in positions such as software and application engineer, customer manager, and vice president of marketing in the North America branch of our Group. Ms. Huo Xinru joined our Group in 2010. She is the daughter of Mr. Fok Tung Ling.

Mr. Wu Tielong (吴铁龙), aged 59, is a non-executive director of our Company and was an executive director of our Company from 12 April 2018 to 31 December 2019. He also holds various positions in the subsidiaries of our Company. Mr. Wu Tielong graduated from the Nanjing Institute of Communication Engineering in 1985 and obtained a bachelor’s degree in communication engineering. He was an associate professor in Xi’an Communication Institute of the People’s Liberation Army. Mr. Wu Tielong has over 19 years of experience in the operation and management in the market of communications. Mr. Wu Tielong joined our Group in 2003 and had served as a general manager in Guangzhou Tailian Telecommunication Equipment Co., Ltd. and executive director, senior vice president and general manager of the Service Business Division and the Domestic Marketing Center of Comba China (now known as Comba Network).

Mr. Lau Siu Ki, Kevin (刘绍基), aged 64, is an independent non-executive director of our Company. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of our Company. Mr. Lau Siu Ki, Kevin graduated from the Hong Kong Polytechnic in 1981 and holds a higher diploma in accountancy. Mr. Lau Siu Ki, Kevin has over 40 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing. He is currently a consultant in the financial advisory

field. Prior to that, Mr. Lau Siu Ki, Kevin had worked in an international accounting firm for over 15 years. He is a fellow member of both the Association of Chartered Certified Accountants (“ACCA”) as well as the Hong Kong Institute of Certified Public Accountants. Mr. Lau Siu Ki, Kevin was a member of the world council of ACCA from 2002 to 2011 and was the chairman of the Hong Kong Branch of ACCA for the year 2000/2001. He is also an independent non-executive director of six (6) other companies listed on the main board of the HKSE namely FIH Mobile Limited, Samson Holding Ltd., Embry Holdings Limited, Binhai Investment Company Limited, TCL Electronics Holdings Limited and IVD Medical Holding Limited. In addition, Mr. Lau Siu Ki, Kevin was an independent non-executive director of China Medical & HealthCare Group Limited, a company listed on the main board of the HKSE, until his retirement on 6 December 2018. He was also an independent supervisor of the sixth session of the supervisory committee of Beijing Capital International Airport Co., Ltd., the shares of which are listed on the main board of the HKSE, until his retirement on 28 June 2017. Mr. Lau Siu Ki, Kevin is also the company secretary of Yeebo (International Holdings) Limited and Hung Fook Tong Group Holdings Limited, both companies listed on the main board of the HKSE, and also Expert Systems Holdings Limited, a company listed on GEM of the HKSE. Mr. Lau Siu Ki, Kevin joined our Group in 2003.

Dr. Lin Jin Tong (林金桐), aged 76, is an independent non-executive director of our Company. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of our Company. Dr. Lin Jin Tong is currently a professor of Beijing University of Posts and Telecommunications (BUPT). He graduated from Peking University majoring in Physics in 1969, and obtained a master’s degree in engineering from the Beijing University of Posts and Telecommunications (BUPT) in 1981. Dr. Lin Jin Tong further obtained a doctorate degree in Philosophy and an honorary doctorate degree in Science from the University of Southampton, UK in 1990. He has worked as lecturer, professor, department head, vice president of BUPT and was also the president of BUPT from 1998 to 2007. Dr. Lin Jin Tong was also a member of the 10th Beijing Municipal Committee of the Chinese People’s Political Consultative Conference from 2003 to 2008. He was a deputy director-general of the China Institute of Communications and is currently a fellow member of the Institution of Engineering and Technology. Dr. Lin Jin Tong has long been engaged in optical communication engineering, including research and teaching in the aspects of high-speed optical communication system and broadband optical access network. He is currently an independent director of Tongding Interconnection Information Co., Ltd. and HC SemiTek Corporation, the shares of which are both listed on the Shenzhen Stock Exchange and UTStarcom Holdings Corp., the shares of which are listed on the Nasdaq Market in the United States and was a director of Jiangsu Zhongtian Technology Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange and retired from such directorship on 15 June 2022. Dr. Lin Jin Tong joined our Group in 2012.

Ms. Ng Yi Kum (伍綺琴), aged 65, is an independent non-executive director of our Company. She is also a member of each of the audit committee, remuneration committee and nomination committee of our Company. Ms. Ng Yi Kum is a qualified accountant and holds a Master of Business Administration degree from the Hong Kong University of Science and Technology obtained in 1995. She is an associate of the Institute of Chartered Accountants in England and Wales, an associate of the Institute of Chartered Secretaries and Administrators (currently known as The Chartered Governance Institute), a fellow of the ACCA, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Ng Yi Kum has been an elected member of Quality Tourism Services Association Governing Council (Retailer Category) in Hong Kong since February 2019. She is currently an executive director, the deputy chairman, the chief strategy officer and chief financial officer and the company secretary of Tse Sui Luen Jewellery (International) Limited, a company listed on the HKSE. Ms. Ng Yi Kum was employed by the HKSE in a number of senior positions, including as the senior vice president of the Listing Division. She joined Hang Lung Properties Limited, a company listed on the HKSE, in 2003 and from September 2005 to November 2007, she served as its executive director. Ms. Ng Yi Kum then served as the chief financial officer of Country Garden Holdings Company Limited from January 2008 to April 2014, a company listed on the

HKSE. She is currently also an independent non-executive director of four (4) other companies listed on the main board of the HKSE, namely, Tianjin Development Holdings Limited, CMGE Technology Group Limited, Powerlong Commercial Management Holdings Limited and KWG Living Group Holdings Limited. Ms. Ng Yi Kum served as an independent non-executive director of CT Vision S.L. (International) Holdings Limited, a company listed on the HKSE, and retired from such directorship on 30 June 2022. Ms. Ng Yi Kum also served as an independent non-executive director of Hong Kong Resources Holdings Company Limited, a company listed on the HKSE, until her resignation on 31 July 2015. She also served as an independent non-executive director of CMGE Group, a company listed by way of American Depositary Shares on the Nasdaq Global Market in the United States, until her resignation on 10 August 2015. Ms. Ng Yi Kum also served as an independent director of DS Healthcare Group, Inc., a company listed on the Nasdaq Capital Market in the United States till its delisting on 23 December 2016, until her resignation on 16 May 2017. She served as an independent non-executive director of China Power Clean Energy Development Company Limited, a company listed on the HKSE and the shares of which were delisted from the HKSE on 21 August 2019, until she resigned in October 2019. Ms. Ng Yi Kum has also contributed her time to various public service appointments, including being a co-opted member of the audit committee of the Hospital Authority of Hong Kong from December 2002 to November 2013. Ms. Ng Yi Kum joined our Group in 2019.

Ms. Wong Lok Lam (王洛琳), aged 37, is an independent non-executive director of our Company. She is also a member of each of the audit committee, remuneration committee and nomination committee of our Company. Ms. Wong Lok Lam is a qualified lawyer practising in Hong Kong. She graduated from the Chinese University of Hong Kong and obtained a bachelor's degree in Business Administration (major in Accounting) in 2006, a Juris Doctor degree in 2008, and a Postgraduate Certificate in Laws in 2009. Ms. Wong Lok Lam also obtained a Master of Laws from University College London in the UK in 2010. She qualified as a solicitor in 2012 and has over 10 years of legal and commercial experience in the domestic and international markets. She is also an accredited mediator in Hong Kong. Ms. Wong Lok Lam worked in various international and local law firms in Hong Kong. She is currently the Assistant General Manager and Legal Counsel of a family office, the Legal Consultant of a media company, a Consultant of a law firm, and a Vice President of a financial brokerage company. Ms. Wong Lok Lam joined our Group in 2020.

Experience of Our Directors

As our Company is listed on the HKSE, all our Directors have experience as a director of at least one (1) public listed company in the PRC, Hong Kong and/or the United States. Our Directors have been briefed on the roles and responsibilities of a director of a public listed company in Singapore prior to our Introduction.

Executive Officers

In addition to our Executive Directors, our Executive Officers are responsible for the day-to-day management and operations of our Company. The following table sets out information regarding our Executive Officers as of the date of this Introductory Document.

Name	Age	Position	Address
Mr. Sun Shanqiu (孙善球)	42	Senior Vice President and General Manager of the Antenna and Subsystem Business Unit and Chief Architect of Antenna Business Line of our Group	c/o No. 10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China
Mr. Zhou Haitao (周海涛)	50	Senior Vice President and General Manager of the Marketing Centre of our Group	c/o No. 10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China
Mr. Li Xuefeng (李学锋)	50	Senior Vice President of our Group	c/o No. 10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China
Mr. Luo Ruibo (骆瑞波)	48	Senior Vice President of our Group	c/o No. 10 Shenzhou Road, Guangzhou Science City, Luogang District, Guangzhou, Guangdong Province, China

Information regarding the areas of responsibility and working experience of our Executive Officers is set out below.

Mr. Sun Shanqiu (孙善球), aged 42, is the senior vice president and general manager of the antenna and subsystem business unit and chief architect of antenna business line of our Group. Mr. Sun Shanqiu is responsible for the operation and management of the antenna and subsystem business of our Group and had previously served as engineer, manager, director of the antenna R&D department of the antenna business unit of Comba Guangzhou. He graduated from University of Electronic Science and Technology of China (电子科技大学) and obtained a bachelor's degree in electronic magnetic field and microwave technology in 2002 and obtained an EMBA degree from Beijing University of Posts and Telecommunications (北京邮电大学) in 2016. Mr. Sun Shanqiu has over 20 years of experience in the industry of mobile communications antenna. In addition, he has a wide range of experience in the research and development, market, manufacturing and operation management. He was elected as the vice president of the Antenna System Industry Alliance of China in 2016. He was appointed as a professional member of the Antenna and Radio Frequency Technical Committee of China Institute of Communications (中国通信学会天线与射频技术委员会) and a technical expert in the expert database of China Institute of Communications in 2019. He joined our Group in 2002.

Mr. Zhou Haitao (周海涛), aged 50, is the senior vice president and general manager of the marketing centre of our Group. Mr. Zhou Haitao is responsible for the operation and management of our Group's sales platform in mainland China. Prior to joining our Group, Mr. Zhou Haitao was an engineer in Nanjing Putian Telecommunications Co., Ltd. and a vice president at Zhongxing Telecommunication Equipment Corporation. He graduated from Huazhong University of Science and Technology (华中理工大学(现称华中科技大学)) and obtained a bachelor's degree in engineering in 1995. Mr. Zhou Haitao has over 22 years of experience in the marketing and operation management in the communications industry. He joined our Group in 2019.

Mr. Li Xuefeng (李学锋), aged 50, is the senior vice president of our Group. Mr. Li Xuefeng is responsible for the management of the human resources, legal affairs, risk management and control, intellectual property rights and taxation of our Group. Mr. Li Xuefeng had previously served as the director of our Group's audit and the general manager of the audit and legal centre of our Group. Prior to joining our Group, Mr. Li Xuefeng was a treasurer of the finance department at Everbright Group (Shenzhen) Industrial Co. and served as head of audit division 3 at Zhongxing Telecommunication Equipment Corporation. He is an International Forensic Certified Public Accountant (FCPAi) (国际注册法务会计师), a member of the Association of Certified Fraud Examiners (CFE) (国际舞弊审计师), a professorship senior economist, an intellectual property rights expert and holds a PhD in management. He graduated from Northeast Forestry University (东北林业大学) majoring in accounting with a bachelor's degree in economics in 1997. He also obtained a master's degree in management from Royal Roads University in 2014, and an EMBA degree from Lingnan College in Sun Yat-Sen University (中山大学岭南学院) in 2017, and a Doctor of Business Administration – Major in Financial Management (equivalent qualification) from California University in 2018. Mr. Li Xuefeng has many years of experience in finance, internal audit, legal affairs and intellectual property rights. He is the chairman of the Invention Association of Guangzhou (广州市发明协会), a technical expert for intellectual property rights of the Guangdong-Hong Kong-Macao Greater Bay Area, an expert in the expert database of the National Intellectual Property Administration, a standing member of the China Behaviour-law Association (中国行为法学会), a standing member of the Intellectual Property Law Association of Guangdong Province Law Society (广东省法学会知识产权法学研究会), the president of the Intellectual Property Alliance for Satellite Navigation and Application Industry of China (中国卫星导航及应用产业知识产权联盟) and a think tank expert of the National Copyright Trade Base (Yue Xiu) (国家版权贸易基地(越秀)). Mr. Li Xuefeng serves as an off-campus instructor or a visiting professor of Master Institute of a number of universities, including the Law School of South China University of Technology, the Humanities and Law School of Northeast Forestry University, and South China Normal University. He joined our Group in 2010.

Mr. Luo Ruibo (骆瑞波), aged 48, is the senior vice president of our Group. He had previously served as the general manager of the human resources department of our Group. Prior to joining our Group, Mr. Luo Ruibo was the vice-manager of the human resource department at Midea Group (华凌电器有限公司). Mr. Luo Ruibo is responsible for the operational management of the process and IT department, and administrative department of our Group. He graduated from Kunming University of Science and Technology (昆明理工大学) in 1998 and obtained a bachelor's degree in engineering. He also obtained an MBA degree from Sun Yat-Sen University (中山大学) in 2009. Mr. Luo Ruibo has over 24 years of experience in human resource management and corporate operational management of large enterprises. He joined our Group in 2005.

Past and Present Principal Directorships

The past and present principal directorships in our Principal Subsidiaries and publicly listed companies held by our Directors and Executive Officers in the last five (5) years preceding the date of this Introductory Document are set out in the section entitled “*Appendix E – List of Past and Present Directorships*” of this Introductory Document.

None of the Independent Directors of our Company sits on the board of any of our Principal Subsidiaries.

Service Agreements with Directors

Mr. Fok Tung Ling has entered into a service contract with our Company for an initial term of three (3) years which commenced on 1 July 2003, and which is renewable thereafter until terminated by either party by giving not less than six (6) months' written notice. He is subject to retirement by rotation and re-election at the general meetings of our Company. Mr. Fok Tung Ling's total remuneration for his positions in our Group for FY2021 was approximately HK\$2,160,000 including discretionary bonus, which was determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Mr. Zhang Yue Jun has entered into a service contract with our Company for an initial term of three (3) years which commenced on 1 July 2003, and which is renewable thereafter until terminated by either party by giving not less than six (6) months' written notice. He is subject to retirement by rotation and re-election at the general meetings of our Company. Mr. Zhang Yue Jun's total remuneration for his positions in our Group for FY2021 was approximately HK\$961,000 including discretionary bonus, which was determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Mr. Xu Huijun has entered into a service contract with our Company for an initial term of 18 months which commenced on 23 August 2018, and which is renewable thereafter until terminated by either party by giving not less than six (6) months' written notice. He is subject to retirement by rotation and re-election at the general meetings of our Company. Mr. Xu Huijun's total remuneration for his positions in our Group for FY2021 was approximately HK\$8,917,000 including discretionary bonus, which was determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Mr. Chang Fei Fu has entered into a service contract with our Company for an initial term of 18 months which commenced on 23 February 2018 and which is renewable thereafter until terminated by either party by giving not less than six (6) months' written notice. He is subject to retirement by rotation and re-election at the general meetings of our Company. Mr. Chang Fei Fu's total remuneration for his positions in our Group for FY2021 was approximately HK\$6,278,000 including discretionary bonus, which was determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Mr. Bu Binlong has entered into a service contract with our Company for an initial term of 18 months which commenced on 12 April 2018, and which is renewable thereafter until terminated by either party by giving not less than six (6) months' written notice. He is subject to retirement by rotation and re-election at the general meetings of our Company. Mr. Bu Binlong's total remuneration for his positions in our Group for FY2021 was approximately HK\$4,125,000 including discretionary bonus, which are determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Ms. Huo Xinru has entered into a service contract with our Company for an initial term of 18 months which commenced on 22 March 2019, and which is renewable thereafter until terminated by either party by giving not less than six (6) months' written notice. She will be subject to retirement by rotation and re-election at the general meetings of our Company. Ms. Huo Xinru's total remuneration for her positions in our Group for FY2021 was approximately HK\$5,446,000 including discretionary bonus, which was determined by our Board with reference to her duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Mr. Wu Tielong has entered into a letter of appointment with our Company for an initial term of three (3) years which commenced on 31 December 2019 and will be renewable thereafter until terminated by either party by giving not less than six (6) months' written notice. He will be subject to retirement by rotation and re-election at the general meetings of our Company. Mr. Wu Tielong's total remuneration for his positions in our Group for FY2021 was approximately HK\$3,850,000 including discretionary bonus, which was determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Mr. Lau Siu Ki, Kevin has entered into a letter of appointment with our Company for a term of one (1) year which commenced on 1 July 2022. He is subject to retirement by rotation and re-election at the general meetings of our Company. Mr. Lau Siu Ki, Kevin's remuneration has been fixed at HK\$220,000 per annum (his remuneration was HK\$250,000 (including equity-settled share option expense) for FY2021), which is determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Dr. Lin Jin Tong has entered into a letter of appointment with our Company for a term of one (1) year which commenced on 21 May 2022. He is subject to retirement by rotation and re-election at the general meetings of our Company. Dr. Lin Jin Tong's remuneration has been fixed at HK\$220,000 per annum (remuneration was HK\$252,000 (including equity-settled share option expense) for FY2021), which is determined by our Board with reference to his duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Ms. Ng Yi Kum has entered into a letter of appointment with our Company for a term of three (3) years which commenced on 22 March 2022. She is subject to retirement by rotation and re-election at the general meetings of our Company. Ms. Ng Yi Kum's remuneration has been fixed at HK\$220,000 per annum (remuneration was HK\$244,000 (including equity-settled share option expense) for FY2021), which is determined by our Board with reference to her duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

Ms. Wong Lok Lam has entered into a letter of appointment with our Company for a term of three (3) years which commenced on 24 November 2020. She is subject to retirement by rotation and re-election at the general meetings of our Company. Ms. Wong Lok Lam's remuneration has been fixed at HK\$220,000 per annum, which is determined by our Board with reference to her duties, performance and responsibilities within our Group, our Group's remuneration policy and the prevailing market conditions.

There are no existing or proposed service agreements entered into or to be entered into by any of our Directors with our Company or any of our subsidiaries which provide for benefits upon termination of employment.

Arrangement or Understanding

There is no arrangement or understanding with any substantial shareholder, customer or supplier of our Company or other person, pursuant to which any of our Directors or Executive Officers was selected as a Director or Executive Officer of our Company.

Family Relationship

Ms. Huo Xinru is the daughter of Mr. Fok Tung Ling.

Except as disclosed above, there is no family relationship among any of our Directors and Executive Officers and any substantial shareholder of our Company.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Directors' Remuneration

The following table sets out the total amount of remuneration paid to each Director for each of FY2019, FY2020 and FY2021:

Director	Fees (HK\$'000)	Salaries, allowances and benefits in kind (HK\$'000)	Performance related bonuses (HK\$'000)	Equity- settled share option expense (HK\$'000)	Share based payment expense (HK\$'000)	Pension scheme contributions (HK\$'000)	Total remuneration (HK\$'000)
FY2021							
Mr. Fok Tung Ling (霍东龄)	–	2,149	–	–	–	11	2,160
Mr. Zhang Yue Jun (张跃军)	–	943	–	–	–	18	961
Mr. Xu Huijun (徐慧俊)	–	3,470	1,261	3,090	1,037	59	8,917
Mr. Chang Fei Fu (张飞虎)	–	3,436	1,200	1,126	498	18	6,278
Mr. Bu Binlong (卜斌龙)	–	1,435	961	1,154	498	77	4,125
Ms. Huo Xinru (霍欣茹)	–	2,488	1,321	1,121	498	18	5,446
Mr. Wu Tielong (吴铁龙)	–	1,415	949	672	800	14	3,850
Mr. Lau Siu Ki, Kevin (刘绍基)	220	–	–	30	–	–	250
Dr. Lin Jin Tong (林金桐)	220	–	–	32	–	–	252
Ms. Ng Yi Kum (伍绮琴)	220	–	–	24	–	–	244
Ms. Wong Lok Lam (王洛琳)	220	–	–	–	–	–	220
	880	15,336	5,692	7,249	3,331	215	32,703

Director	Fees (HK\$'000)	Salaries, allowances and benefits in kind (HK\$'000)	Performance related bonuses (HK\$'000)	Equity- settled share option expense (HK\$'000)	Share based payment expense (HK\$'000)	Pension scheme contributions (HK\$'000)	Total remuneration (HK\$'000)
FY2020							
Mr. Fok Tung Ling (霍东龄)	-	2,075	875	-	-	18	2,968
Mr. Zhang Yue Jun (张跃军)	-	943	656	-	-	18	1,617
Mr. Xu Huijun (徐慧俊)	-	3,509	5,766	2,394	533	46	12,248
Mr. Chang Fei Fu (张飞虎)	-	3,436	1,324	1,251	255	18	6,284
Mr. Bu Binlong (卜斌龙)	-	1,413	2,064	1,258	255	64	5,054
Ms. Huo Xinru (霍欣茹)	-	2,488	1,985	1,090	255	18	5,836
Mr. Wu Tielong (吴铁龙)	-	1,370	1,589	1,205	305	10	4,479
Mr. Lau Siu Ki, Kevin (刘绍基)	220	-	-	60	-	-	280
Dr. Lin Jin Tong (林金桐)	220	-	-	60	-	-	280
Ms. Ng Yi Kum (伍绮琴)	220	-	-	40	-	-	260
Ms. Wong Lok Lam (王洛琳) ⁽¹⁾	23	-	-	-	-	-	23
Ms. Leung Hoi Wai (梁海慧) ⁽²⁾	197	-	-	-	-	-	197
	880	15,234	14,259	7,358	1,603	192	39,526

Director	Fees (HK\$'000)	Salaries, allowances and benefits in kind (HK\$'000)	Performance related bonuses (HK\$'000)	Equity- settled share option expense (HK\$'000)	Share based payment expense (HK\$'000)	Pension scheme contributions (HK\$'000)	Total remuneration (HK\$'000)
FY2019							
Mr. Fok Tung Ling (霍东龄)	–	2,091	1,015	–	–	18	3,124
Mr. Zhang Yue Jun (张跃军)	–	1,201	1,048	–	–	18	2,267
Mr. Xu Huijun (徐慧俊)	–	3,281	164	2,814	–	57	6,316
Mr. Chang Fei Fu (张飞虎)	–	3,436	–	1,474	–	18	4,928
Mr. Bu Binlong (卜斌龙)	–	1,356	515	1,451	–	75	3,397
Ms. Huo Xinru (霍欣茹)	–	1,960	–	1,016	–	15	2,991
Mr. Wu Tielong (吴铁龙)	–	1,227	163	1,366	–	13	2,769
Mr. Lau Siu Ki, Kevin (刘绍基)	220	–	–	71	–	–	291
Dr. Lin Jin Tong (林金桐)	220	–	–	71	–	–	291
Ms. Ng Yi Kum (伍绮琴) ⁽³⁾	171	–	–	38	–	–	209
Ms. Leung Hoi Wai (梁海慧) ⁽⁴⁾	120	–	–	–	–	–	120
Mr. Qian Ting Shuo (钱庭硕) ⁽⁵⁾	9	–	–	1	–	–	10
	740	14,552	2,905	8,302	–	214	26,713

Notes:

- (1) Ms. Wong Lok Lam was only appointed to our Board on 24 November 2020 and accordingly, the Directors' fees paid to her were pro-rated.
- (2) Ms. Leung Hoi Wai resigned from our Board on 24 November 2020 and accordingly, the Directors' fees paid to her were pro-rated.
- (3) Ms. Ng Yi Kum was only appointed to our Board on 22 March 2019 and accordingly, the Directors' fees paid to her were pro-rated.
- (4) Ms. Leung Hoi Wai was only appointed to our Board on 14 June 2019 and accordingly, the Directors' fees paid to her were pro-rated.
- (5) Mr. Qian Ting Shuo resigned from our Board on 15 January 2019 and accordingly, the Directors' fees paid to him were pro-rated.

The five (5) highest paid employees during each of FY2019, FY2020 and FY2021 included five (5) directors, details of whose remuneration are set out in the tables above.

Remuneration of Executive Officers

The remuneration, including sales commissions, equity-settled share option expense and awarded share expense, of the Executive Officers of our Group by band for each of FY2019, FY2020 and FY2021 is set out as follows:

Remuneration bands (HK\$)	Number of person(s)		
	FY2019	FY2020	FY2021
Nil to 1,000,000	3	2	–
1,000,001 to 2,000,000	6	6	–
2,000,001 to 3,000,000	2	3	4

Other than amounts set aside or accrued for compliance with relevant laws and regulations, no amounts have been set aside or accrued by our Company or subsidiaries to provide for pension, retirement or similar benefits for our employees.

Our Company does not have any bonus or profit-sharing plan or profit-linked agreement or arrangement with/for any of our Directors, Executive Officers or employees. As such, no portion of the compensation was paid or is to be paid pursuant to any bonus or profit-sharing plan or any other profit-linked agreement or arrangement.

Other than Ms. Huo Xinru, who is the daughter of Mr. Fok Tung Ling, none of our employees are immediate family members of our Directors.

Summary of the Share Incentive Scheme

- **The 2013 Scheme**

Expiry date. We operate a share option scheme adopted on 3 June 2013 which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for ten years from that date and will expire on 3 June 2023.

Eligibility.

The purpose of the 2013 Scheme is to provide incentives and rewards to eligible persons for their contribution or potential contribution to the success of our Group's operations. Eligible persons of the 2013 Scheme include (i) Directors (including independent non-executive directors) or employees of, or individual for the time being seconded to work for; (ii) holders of any securities issued by; (iii) business or joint venture partners, contractors, agents or representatives of; (iv) persons or entities that provide research, development or technological support or any advisory, consultancy or professional services incidental to the business of our Group to; (v) investors, vendors, suppliers, developers or licensors of; or (vi) customers, licencees (including sub-licencees), wholesalers, retailers, traders or distributors of goods or services of, any member of our Group, our Controlling Shareholders or companies controlled by our Controlling Shareholders.

Limit of exercise of options. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme, the Share Award Scheme and any other incentive or share option schemes of our Company shall not exceed 30% of our Shares in issue at any time. The maximum number of shares already issued and to be issued upon exercise of share options granted to each eligible person under the 2013 Scheme and any other share option schemes of our Company (including cancelled, exercised and outstanding share options) in any 12-month period is limited to 1.0% of our Shares in issue at any time. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

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

Exercise Price. The exercise price of the share options granted under the 2013 Scheme is determinable by our Directors, but be at least the higher of: (i) the nominal value of our Shares; (ii) the closing price of our Shares as stated in the daily quotations sheet issued by the HKSE on the date of offer of the share options; and (iii) the average closing prices of our Shares as stated in the daily quotations sheets issued by the HKSE for the five (5) business days immediately preceding the date of offer of the share options.

No voting rights or right to dividend. Share options granted under the 2013 Scheme do not confer rights on the holders to dividends or to vote at our Shareholders' meetings.

- **The Share Award Scheme**

We adopted a share award scheme on 25 March 2011 (the "**Adoption Date**"). The purposes and objectives of the Share Award Scheme are to recognise the contributions made by certain employees and persons to our Group (the "**Selected Person(s)**") and to provide them with incentives in order to retain them for the continual operation and development of our Group and to attract suitable personnel for further development of our Group.

Expiration date. Unless it is early terminated by our Board in accordance with the terms therein, the Share Award Scheme shall be valid and effective until the date falling on the 10th anniversary of the Adoption Date. Our Board has resolved to renew the term of the Share Award Scheme for a term of ten years as from 25 March 2021 to 25 March 2031.

Issuance of awarded shares. Pursuant to the Share Award Scheme, awarded shares (the "**Awarded Shares**") may be (i) acquired by the trustee (the "**Trustee**") and/or the administrator committee (the "**Administrator Committee**") of the Share Award Scheme at the cost of our Company at the prevailing market price and be held on trust for the Selected Persons; or (ii) allotted and issued as new Shares to the Trustee/Administration Committee under general mandates granted or to be granted by the Shareholders at general meetings from time to time and be held on trust for the Selected Persons.

Limit of award of Awarded Shares. Our Board shall not make any further award of the Awarded Shares which will result in the number of the Shares awarded by our Board under the Share Award Scheme exceeding 5% of our issued share capital as at the Adoption Date (or the refreshed or amended limit as approved by the Shareholders in any general meeting). The maximum number of Shares which may be awarded to a Selected Person under the Share Award Scheme shall not exceed 1% of our issued share capital as at the Adoption Date (or the refreshed or amended limit as approved by the Shareholders). The aforesaid limit may be refreshed or amended by approval of the Shareholders in a general meeting. Nevertheless, the total number of the Awarded Shares which may be issued under the Share Award Scheme and the exercise of all options to be granted under our other incentive and option schemes (including the 2013 Scheme) as so refreshed shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Awarded Shares or share

options previously granted under the Share Award Scheme or the 2013 Scheme (including those vested, outstanding, cancelled and lapsed) will not be counted for the purpose of calculating the limit as refreshed. We will not issue any Awarded Shares under the Share Award Scheme which would result in the total number of the Awarded Shares together with shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme or any other incentive or share option schemes of our Company representing in aggregate over 30% of the Shares in issue as at the date of such grant.

Lapse of Awarded Shares awarded. On 12 April 2011, our Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Shares pursuant to the general mandate granted by the Shareholders of our Company at the annual general meeting of our Company held on 24 May 2010. All such 26,000,000 Awarded Shares were vested or had lapsed.

- ***The Share Incentive Scheme***

On 29 May 2020, we adopted the Share Incentive Scheme to award, the Shares of Comba Network, our indirect subsidiary, to Directors, employees and consultants of our Group to recognise their contributions to our Group. Comba Consulting, our indirect wholly-owned subsidiary, acts as a general partner, together with the selected participants (the “**Selected Participants**”) in the Share Incentive Scheme who act as limited partners, have set up three (3) Non-G Partnerships and four (4) Existing G Partnerships and four (4) New G Partnerships in the PRC.

In June 2020, Comba Consulting set up the Non-G Partnerships under the Non-G Limited Partnership agreements (comprising three (3) limited partnership agreements dated 10 June 2020 entered into between the Non-G Partners and Non-G Limited Partners, together with any supplemental and/or ancillary agreement, in relation to the establishment and management of the Non-G Partnerships pursuant to the Share Incentive Scheme) to hold the relevant incentive shares for and on behalf of the Selected Participants. Upon the completion of the establishment, the Selected Participants under Non-G Partnerships consist of four (4) Directors, five (5) directors of the relevant subsidiaries of our Company, 98 employees of our Group (excluding Comba Network Group) and three (3) consultants of our Group (excluding Comba Network Group). Non-G Partnerships purchased certain existing shares of Comba Network from CTSL, a wholly-owned subsidiary of our Company, at the total consideration of RMB57,700,000.

In June 2020, Comba Consulting also set up the Existing G Partnerships under the G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. The G Limited Partnership agreements comprise one (1) limited partnership agreement dated 1 June 2020 and three (3) limited partnership agreements dated 10 June 2020 entered into between the G General Partner and G Limited Partners, together with any supplemental and/or ancillary agreement, in relation to the establishment and management of each of the G Partnership pursuant to the Share Incentive Scheme. Upon the completion of the establishment, the Selected Participants under the Existing G Partnerships consist of one (1) director, three (3) directors of the relevant subsidiaries of our Company as well as 119 employees of the Comba Network Group. The Existing G Partnerships subscribed for and Comba Network issued certain new shares at a total consideration of RMB54,400,000.

Pursuant to the partnership interest transfer agreements dated 12 April 2021 entered into between (i) Comba Consulting as general partner (the “**G General Partner**”) of the Existing G Partnerships and (ii) certain existing limited partners in the Existing G Partnerships which consist of a director of our Company together with 100 employees and five (5) directors in

the Comba Network Group (the “**Existing G Limited Partners**”) and certain new limited partners which consist of 10 employees in the Comba Network Group (the “**Additional G Limited Partners**”), the G General Partner has transferred its limited partnership interests in the Existing G Partnerships in the aggregate amount of RMB14,000,000 to certain Existing G Limited Partners and Additional G Limited Partners, as limited partners of the Existing G Partnerships, including RMB13,160,000 to certain Existing G Limited Partners and RMB840,000 to the Additional G Limited Partners (the “**Transfer of LP Interests**”).

On 23 March 2021, Comba Consulting further set up XHT No. 9 Partnership, XHT No. 10 Partnership, XHT No. 11 Partnership and XHT No. 12 Partnership (collectively the “**New G Partnerships**”) in the PRC under the New G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. Upon the completion of the establishment, the Selected Participants under New G Partnerships consist of 174 employees of the Comba Network Group.

Pursuant to the capital increase agreement entered into between New G Partnerships and Comba Network on 12 April 2021, the New G Partnerships subscribed for and Comba Network issued new shares at the total consideration of RMB20,000,000, including RMB19,880,000 contributed by the limited partners in New G Partnerships as limited partners, and RMB120,000 contributed by Comba Consulting as general partner, respectively (the “**New Share Acquisitions**”).

Each of the Non-G Partnerships, Existing G Partnerships and New G Partnerships has been accounted for as a subsidiary of our Company and its financial results have been consolidated into the accounts of our Company. As at 30 June 2022, the Non-G Partnerships, Existing G Partnerships and New G Partnerships hold approximately 4.71%, 4.44% and 1.63% of the equity interest of Comba Network, respectively.

Awards/Options held by our Directors

The following table summarises, as of 30 June 2022, the awards/options granted under the 2013 Scheme to several of our Directors, excluding awards that were forfeited or cancelled after the relevant grant dates. The offer of a grant of share options under the 2013 Scheme may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$10 in total by the grantee.

Name	Shares Underlying Options	Exercise Price (HK\$/Share)	Date of Grant	Date of Expiration	Period During Which Option(s) is/are exercisable
Directors					
Mr. Fok Tung Ling	–	–	–	–	–
Mr. Zhang Yue Jun	–	–	–	–	–
Mr. Xu Huijun	5,000,000	1.300	28 August 2018	27 August 2023	28 August 2019 – 27 August 2023
	10,000,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
	4,000,000	2.030	13 April 2021	12 April 2026	13 April 2022 – 12 April 2026

Name	Shares Underlying Options	Exercise Price (HK\$/Share)	Date of Grant	Date of Expiration	Period During Which Option(s) is/are exercisable
Mr. Chang Fei Fu	500,000	1.170	10 April 2018	9 April 2023	10 April 2019 – 9 April 2023
	5,000,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
	2,000,000	2.030	13 April 2021	12 April 2026	13 April 2022 – 12 April 2026
Mr. Bu Binlong	1,800,000	1.170	10 April 2018	9 April 2023	10 April 2019 – 9 April 2023
	5,000,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
	2,000,000	2.030	13 April 2021	12 April 2026	13 April 2022 – 12 April 2026
Ms. Huo Xinru	1,050,000	1.170	10 April 2018	9 April 2023	10 April 2019 – 9 April 2023
	5,000,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
	2,000,000	2.030	13 April 2021	12 April 2026	13 April 2022 – 12 April 2026
Mr. Wu Tielong	1,800,000	1.170	10 April 2018	9 April 2023	10 April 2019 – 9 April 2023
	5,000,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
Mr. Lau Siu Ki, Kevin	50,000	1.170	10 April 2018	9 April 2023	10 April 2019 – 9 April 2023
	200,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
Dr. Lin Jin Tong	200,000	1.170	10 April 2018	9 April 2023	10 April 2019 – 9 April 2023
	200,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
Ms. Ng Yi Kum	200,000	1.890	8 April 2019	7 April 2024	8 April 2020 – 7 April 2024
Ms. Wong Lok Lam	–	–	–	–	–
Total	51,000,000				

The following table summarises, as of 30 June 2022, the awards granted under the Share Incentive Scheme to several of our Directors, excluding awards that were forfeited or cancelled after the relevant grant dates.

Name of Director	Date of Grant	Description of award granted under the Share Incentive Scheme
Mr. Fok Tung Ling	–	–
Mr. Zhang Yue Jun	–	–
Mr. Xu Huijun	11 June 2020	The XHT No. 2 Partnership (鑫瀚通二号企业管理(珠海)合伙企业(有限合伙)) was established on 11 June 2020 under the Share Incentive Scheme. The total capital commitment to the Partnership is RMB23.85 million, and the capital commitment of Mr. Xu Huijun is RMB5.0 million, which is approximately 20.96% of the equity interest in the XHT No. 2 Partnership.
Mr. Chang Fei Fu	11 June 2020	The XHT No. 2 Partnership (鑫瀚通二号企业管理(珠海)合伙企业(有限合伙)) was established on 11 June 2020 under the Share Incentive Scheme. The total capital commitment to the XHT No. 2 Partnership is RMB23.85 million, and the capital commitment of Mr. Chang Fei Fu is RMB2.4 million, which is approximately 10.06% of the equity interest in the XHT No. 2 Partnership.
Mr. Bu Binlong	11 June 2020	The XHT No. 2 Partnership (鑫瀚通二号企业管理(珠海)合伙企业(有限合伙)) was established on 11 June 2020 under the Share Incentive Scheme. The total capital commitment to the XHT No. 2 Partnership is RMB23.85 million, and the capital commitment of Mr. Bu Binlong is RMB2.4 million, which is approximately 10.06% of the equity interest in the XHT No. 2 Partnership.
Ms. Huo Xinru	11 June 2020	The XHT No. 2 Partnership (鑫瀚通二号企业管理(珠海)合伙企业(有限合伙)) was established on 11 June 2020 under the Share Incentive Scheme. The total capital commitment to the Partnership is RMB23.85 million, and the capital commitment of Ms. Huo Xinru is RMB2.4 million, which is approximately 10.06% of the equity interest in the XHT No. 2 Partnership.
Mr. Wu Tielong	10 June 2020	The XHT No. 3 Partnership (鑫瀚通三号企业管理(珠海)合伙企业(有限合伙)) was established on 10 June 2020 under the Share Incentive Scheme. The total capital commitment to the XHT No. 3 Partnership is RMB19.22 million, and the capital commitment of Mr. Wu Tielong is RMB2.8 million, which is approximately 14.56% of the equity interest in the XHT No. 3 Partnership.
	12 April 2021	Pursuant to the transfer agreement dated 12 April 2021, Comba Consulting (京信企业咨询(广州)有限公司) agreed to, among others, transfer (the “ Transfer ”) its interests of RMB600,000 in the XHT No. 3 Partnership (鑫瀚通三号企业管理(珠海)合伙企业(有限合伙)) to Mr. Wu Tielong. Upon completion of the Transfer, together with Mr. Wu Tielong's capital commitment of RMB2,800,000 on 10 June 2021, his total capital commitment in the XHT No. 3 Partnership is RMB3,400,000 (approximately 17.68% of equity interest in the XHT No. 3 Partnership with total capital commitment of RMB19,220,000).

Name of Director	Date of Grant	Description of award granted under the Share Incentive Scheme
Mr. Lau Siu Ki, Kevin	–	–
Dr. Lin Jin Tong	–	–
Ms. Ng Yi Kum	–	–
Ms. Wong Lok Lam	–	–

As of 30 June 2022, none of our Directors held any awards that were granted under the Share Award Scheme.

As of 30 June 2022, other employees in aggregate as a group held awards of options to purchase 101,564,500 Shares of our Company. The exercise prices of the options range from HK\$1.170 to HK\$2.030 per Share.

CORPORATE GOVERNANCE

Our Board is responsible for, *inter alia*, formulating corporate strategies, approving overall business plans and overseeing our Group's financial performance, management and organisation on behalf of the Shareholders. Our Board is also responsible for performing the corporate governance duties as set out in the Code Provisions.

Board Committees

We have three (3) board committees: the Audit Committee, the Nomination Committee and the Remuneration Committee.

- Audit Committee**

Our Audit Committee comprises four (4) independent non-executive Directors, being Mr. Lau Siu Ki, Kevin, Dr. Lin Jin Tong, Ms. Ng Yi Kum and Ms. Wong Lok Lam. The chairman of the Audit Committee is Mr. Lau Siu Ki, Kevin.

We have determined that Mr. Lau Siu Ki, Kevin and Ms. Ng Yi Kum qualify as "independent non-executive directors" with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules. At least one (1) member of our Audit Committee is required to be sufficiently knowledgeable and experienced to reliably review our financial statements.

A former partner of our Company's existing auditing firm should be prohibited from acting as a member of our Audit Committee for a period of two (2) years from the date of the person ceasing (i) to be a partner of the firm or (ii) to have any financial interest in the firm, whichever is later.

The duties and responsibilities of our Audit Committee include the following:

Relationship with our auditors

- (a) to be primarily responsible for making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. Our Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. Our Audit Committee should report to our Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of our financial information

- (d) to monitor integrity of our Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to our Board, our Audit Committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting;
- (e) regarding (d) above:
 - (i) members of our Audit Committee should liaise with our Board and senior management and our Audit Committee must meet, at least twice a year, with our Company's auditors; and
 - (ii) our Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by our Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of our Company's financial reporting, risk management and internal control systems

- (f) to review our Company's financial controls, and unless expressly addressed by a separate board risk committee, or by our Board itself, to review our Company's risk management and internal control systems;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This

discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of our Company's accounting and financial reporting function;

- (h) to consider major investigation findings on risk management and internal control matters as delegated by our Board or on its own initiative and management's response to these findings;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within our Company, and to review and monitor its effectiveness;
- (j) to review our Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that our Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to review arrangements employees of our Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal controls or other matters. Our Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
- (n) to act as the key representative body for overseeing our Company's relations with the external auditor;
- (o) to report to our Board on the matters in the Code Provisions; and
- (p) to consider other topics, as defined by our Board.

The authority of our Audit Committee includes the following:

- (a) our Audit Committee is authorised by our Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by our Audit Committee;
- (b) our Audit Committee shall report to our Board on a regular basis as our Board may direct;
- (c) our Audit Committee shall be provided with sufficient resources to perform its duties;
- (d) our Audit Committee is authorised by our Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary;
- (e) our Audit Committee shall report to our Board any suspected frauds and irregularities, failures of internal controls or suspected infringement of relevant applicable laws, rules and regulations which come to its attention and are of sufficient importance to draw the attention of our Board; and

- (f) where our Board disagrees with our Audit Committee's view on the selection, appointment, resignation or dismissal of the auditors, our Company shall arrange for the Corporate Governance Report in the annual report to include an explanation of our Audit Committee's view and the reasons why our Board has taken a different view.

- **Nomination Committee**

Our Nomination Committee comprises four (4) independent non-executive Directors, being Dr. Lin Jin Tong, Mr. Lau Siu Ki, Kevin, Ms. Ng Yi Kum and Ms. Wong Lok Lam. The chairman of the Nomination Committee is Dr. Lin Jin Tong.

The duties and responsibilities of our Nomination Committee include the following:

- (i) to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, professional experience, skills and knowledge) of our Board at least annually and make recommendations on any proposed changes to our Board to complement our Company's corporate strategy with due regard to our Board Diversity Policy;
- (ii) to identify individuals suitably qualified to become Board members and select or make recommendations to our Board on the selection of individuals nominated for directorships;
- (iii) to make recommendations to our Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;
- (iv) to assess the independence of independent non-executive directors and review the independent non-executive directors' annual confirmations on their independence;
- (v) to monitor the implementation of our Board Diversity Policy and review such policy, as appropriate, to ensure its effectiveness;
- (vi) to do any such things or acts to enable our Nomination Committee to discharge its duties and functions conferred on it by our Board;
- (vii) to develop the diversity of the Board members and disclose the Board Diversity Policy or a summary thereof in the corporate governance report; and
- (viii) to conform to any requirement, direction and regulation that may from time to time be prescribed by our Board or contained in the articles of association of our Company or imposed by relevant applicable legislation and regulations.

The provisions set out in the above paragraphs (i), (ii) and (iii) are regarded as the key nomination criteria and principles of our Company for the nomination of directors, and these provisions constitute the "Nomination Policy" of our Company.

The authority of our Nomination Committee includes the following:

- (a) Our Nomination Committee is authorised by our Board to seek independent professional advice, at our Company's expense, to perform its responsibilities when necessary;
- (b) Our Nomination Committee shall report to our Board on a regular basis as our Board may direct;
- (c) Our Nomination Committee shall be provided with sufficient resources to perform its duties; and

- (d) Our Nomination Committee shall consider the following principles in carrying out its responsibilities for reviewing our Board composition:
- (i) our Board should have a balance of skills, and experience and diversity of perspectives appropriate to the requirements of our Company's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on our Board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight; and
 - (ii) there should be a formal, considered and transparent procedure for the appointment of new directors. There should be plans in place for orderly succession of appointments. All directors should be subject to re-election at regular intervals. Our Company must explain the reasons for the resignation or removal of any director.

- **Remuneration Committee**

Our Remuneration Committee comprises four (4) independent non-executive Directors, being Mr. Lau Siu Ki, Kevin, Dr. Lin Jin Tong, Ms. Ng Yi Kum and Ms. Wong Lok Lam. The chairman of the Remuneration Committee is Mr. Lau Siu Ki, Kevin.

The duties and responsibilities of our Remuneration Committee include the following:

- (i) to make recommendations to our Board on our policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (ii) to review and approve the management's remuneration proposals with reference to our Board's corporate goals and objectives;
- (iii) to make recommendations to our Board on the remuneration packages of individual executive directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (iv) to make recommendations to our Board on the remuneration of non-executive directors;
- (v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in our Group;
- (vi) to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (vii) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (viii) to conform to any requirement, direction and regulation that may from time to time be prescribed by our Board or contained in our articles of association or imposed by relevant applicable legislation and regulations; and
- (ix) to ensure that no Director or any of his associates is involved in deciding his own remuneration. Our Remuneration Committee shall advise shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Rule 13.68 of the Hong Kong Listing Rules.

The authority of our Remuneration Committee includes the following:

- (a) Our Remuneration Committee should consult the chairman of our Board and/or president of our Group about their remuneration proposals for other executive directors;
- (b) Our Remuneration Committee should have access to independent professional advice if necessary, and shall report to our Board on a regular basis as our Board may direct; and
- (c) Our Remuneration Committee shall be provided with sufficient resources to perform its duties.

Statement on Adequacy of Internal Controls

Our Board has noted that no material weaknesses in the design or operation of the accounting and internal control systems have been raised by the Independent Auditor in the ordinary course of their audit of the financial statements of our Group for the years ended 31 December 2019, 2020 and 2021.

Our Board has also noted that our Group has implemented measures recommended by its internal auditors, the Independent Auditor, or implemented mitigating measures presented to the Independent Auditor, to address the risks arising from the issues identified by the Independent Auditors and Reporting Accountants in relation to our internal control policies and procedures relating to certain financial, operational, compliance and information technology controls reviewed by the Independent Auditor.

Based on the foregoing and the internal controls and risk management systems established and maintained by our Group, work performed by internal and external auditors and reviews performed by management, our Board, with the concurrence of our Audit Committee, is of the opinion that the internal controls (including financial, operational, compliance and information technology controls) and risk management systems of our Group are adequate and effective to address the financial, operational, compliance and information technology risks of our Group.

Opinion of our Audit Committee in relation to our CFO

In considering the suitability of Mr. Chang Fei Fu for his role as our CFO, our Audit Committee has considered several factors, including the following: (a) his educational and professional qualifications and working experience; (b) his abilities, familiarity and diligence in relation to the financial matters of our Group; (c) the absence of negative feedback from our Independent Auditor; and (d) the interactions of our Audit Committee with Mr. Chang Fei Fu in his capacity as CFO.

After making all reasonable enquiries, and to the best of their knowledge and belief, nothing has come to the attention of our Audit Committee to cause them to believe that Mr. Chang Fei Fu does not have the competence, character and integrity expected of a chief financial officer of a listed issuer.

Terms of Office

Save as disclosed in the section entitled “*Management and Corporate Governance – Directors and Executive Officers – Service Agreements with Directors*” of this Introductory Document, our Directors do not currently have a fixed term of office.

Our Directors shall hold office until such time as they are removed from office by ordinary resolution of the Shareholders pursuant to our Memorandum and Articles of Association. The

office of a Director shall be vacated if, among other things, the Director (i) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors; or (ii) resigns his office by notice in writing to our Company or tendered at a meeting of our Board; or (iii) dies or is found to be or becomes of unsound mind; or (iv) without special leave of absence from our Board, is absent from meetings of our Board for six (6) consecutive months, and his alternate director, if any, shall not during such period have attended in his stead and our Board resolves that his office be vacated; or (v) is prohibited by law from being a Director; or (vi) ceases to be a Director by virtue of any provision of the law of the Cayman Islands and our Memorandum and Articles of Association or is removed from office pursuant to our Articles of Association.

At each annual general meeting, one-third of the Directors then in office (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three (3) years. A retiring Director shall be eligible for re-election. The Directors to retire in every year shall be those, subject to retirement by rotation, who have been longest in office since their last re-election or appointment.

We have also entered into a letter of appointment with each of the non-executive Directors and independent non-executive Directors. Pursuant to such letters of appointment, each of them is appointed for a fixed term of not more than three (3) years and is subject to retirement by rotation and re-election at the annual general meetings of our Company in accordance with our Articles of Association.

LEGAL REPRESENTATIVES

Identity of Legal Representatives of our Principal Subsidiaries in the PRC

The legal representative of each of our Principal Subsidiaries in the PRC are as follows:

Principal PRC Subsidiary	Name of the Legal Representative	Positions Held
Comba Telecom Systems (Guangzhou) Limited (京信通信系统(广州)有限公司)	Zhang Yue Jun (张跃军)	Chairman of the board of directors
Comba Telecom Technology (Guangzhou) Limited (京信通信技术(广州)有限公司)	Zhang Yue Jun (张跃军)	Chairman of the board of directors
Comba Network Systems Company Limited (京信网络系统股份有限公司)	Xu Huijun (徐慧俊)	Chairman of the board of directors
Comba Software Technology (Guangzhou) Limited (京信软件科技(广州)有限公司)	Fok Tung Ling (霍东龄)	Chairman of the board of directors and general manager
Guangzhou TPcom Wireless Ltd. (广州泰普无线通信设备有限公司)	Zhang Yue Jun (张跃军)	Chairman of the board of directors
WaveLab Telecom Equipment (Guangzhou) Limited (波达通信设备(广州)有限公司)	Qiu Bing (邱兵)	Chairman of the board of directors and general manager

Powers and Duties of Legal Representatives

In accordance with applicable PRC laws, each of the above legal representatives has the powers to act as representative of that principal PRC subsidiary and to execute contracts on behalf of that principal PRC subsidiaries, with or without the company seal. The principal PRC subsidiaries have appointed legal representatives as required by the PRC laws, who are given the powers to represent, exercise rights and enter into binding obligations on behalf of the principal PRC subsidiaries under the PRC laws.

Appointment and Removal of Legal Representatives

Under the applicable PRC laws, the legal representative shall be appointed and removed in accordance with PRC laws and the articles of association of the company; where the executive body of a legal person is the board of directors or the executive director, the legal representative shall be the chairman of the board of directors, the executive director, or the manager as is stipulated in the articles of association of the company. Further, the chairman of the board or the executive director shall be appointed by the shareholders and the general manager shall be appointed by the board or the executive director. Therefore, the legal representative can be appointed and removed by the shareholders or through the appointed board or executive director, with or without the legal representative's consent.

Principal PRC Subsidiaries

Based on the above and the articles of association of each of our principal PRC subsidiaries, each of their respective shareholder(s) shall be able to, either directly or indirectly, control the appointment and dismissal of the respective legal representatives of our principal PRC subsidiaries.

Measures Implemented by our Group

Considering the impact in the event that a legal representative represents any of our principal PRC subsidiaries without having obtained prior authorisation, our Group has implemented the following measures in the event of a change in any of our principal PRC subsidiaries:

- (a) the implementation of internal control systems to ensure proper authorisation as to the delegation of authority and to ensure that payments require proper approvals;
- (b) the implementation of measures to safeguard the corporate seal, finance seal, legal seal and cheque books in each of our principal PRC subsidiaries such as the safekeeping of such documents and items by a dedicated personnel at our Group's headquarters in charge of safekeeping the seals in accordance with our seal management system; and
- (c) safekeeping of the originals of the business licences of each of our PRC Principal Subsidiaries by a dedicated personnel at our Group's headquarters in charge of safekeeping the licences in accordance with our licences management system.

Based on the above, our Directors are of the view, on the basis of our PRC Legal Adviser to the Company's advice, that the procedures in place to appoint and remove the legal representatives of our principal PRC subsidiaries are adequate to mitigate the risks in relation to the appointment of legal representatives and safeguard the interests of our Group.

SHARE OWNERSHIP

DIRECTORS, CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN OUR SHARES AND UNDERLYING SHARES OF OUR COMPANY

As at 31 December 2019

Interests of Directors and chief executive of our Company

As at 31 December 2019, the interests and short positions of our Directors and chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Hong Kong Listing Rules (the “**Model Code**”), were as follows:

Long positions in ordinary shares of our Company

Number of ordinary shares held, capacity and nature of interest						
Name of Director	Notes	Directly beneficially owned	Through spouse	Through controlled corporation	Total	Approximate percentage of our Company's issued share capital (%)
Mr. Fok Tung Ling	(a)	24,864,339	–	710,115,129	734,979,468	29.56
Mr. Zhang Yue Jun	(b)	–	–	248,225,410	248,225,410	9.98
Mr. Xu Huijun	–	10,000,000	–	–	10,000,000	0.40
Mr. Chang Fei Fu	–	350,000	–	–	350,000	0.01
Mr. Bu Binlong	–	3,578,284	–	–	3,578,284	0.14
Mr. Wu Tielong	–	1,842,049	–	–	1,842,049	0.07

Long positions in share options of our Company

Name of Directors	Number of share options directly beneficially owned
Mr. Xu Huijun	15,000,000
Mr. Chang Fei Fu	10,300,000
Mr. Bu Binlong	10,100,000
Ms. Huo Xinru	6,050,000
Mr. Wu Tielong	8,450,000
Mr. Lau Siu Ki, Kevin	510,000
Dr. Lin Jin Tong	455,000
Ms. Ng Yi Kum	200,000

Notes:

- (a) These Shares are beneficially owned by Prime Choice Investments Limited. By virtue of his 100% shareholding of Prime Choice Investments Limited, Mr. Fok Tung Ling is deemed or taken to be interested in 710,115,129 Shares owned by Prime Choice Investments Limited under the SFO.
- (b) These Shares are beneficially owned by Wise Logic Investments Limited. By virtue of his 100% shareholding in Wise Logic Investments Limited, Mr. Zhang Yue Jun is deemed or taken to be interested in 248,225,410 Shares owned by Wise Logic Investments Limited under the SFO.

As at 31 December 2019, Mr. Zheng Guobao, a former executive director of our Company, beneficially held 32% equity interest in WaveLab Holdings Limited (“**WaveLab Holdings**”), which was an indirect non wholly-owned subsidiary of our Company. Save for the above and to the knowledge of our Company, as at 31 December 2019, none of our Directors or chief executive of our Company had or was deemed to have any interest or short position in our Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which our Directors and chief executive of our Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to our Company and the HKSE pursuant to the Model Code.

Interests of Substantial Shareholders of our Company and other persons who are required to disclose their interests under the SFO

As at 31 December 2019, the following substantial shareholders (other than a Director or the chief executive of our Company) had interests or short positions in our Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE as follows:

Long Positions

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of our Company's issued share capital (%)
Prime Choice Investments Limited	–	Beneficial owner	710,115,129	28.56
Madam Chen Jing Na	(a)	Interest of spouse	734,979,468	29.56
Wise Logic Investments Limited	–	Beneficial owner	248,225,410	9.98
Madam Cai Hui Ni	(b)	Interest of spouse	248,225,410	9.98

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok Tung Ling and is deemed to be interested in the 734,979,468 Shares in which Mr. Fok Tung Ling is interested or deemed to be interested under the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 248,225,410 Shares in which Mr. Zhang Yue Jun is interested or deemed to be interested under the SFO.

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

- (i) 710,115,129 Shares between Prime Choice Investments Limited and Madam Chen Jing Na; and
- (ii) 248,225,410 Shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 31 December 2019, no person (other than our Directors or chief executive of our Company, whose interests are set out in the above) had registered an interest or short position in our Shares or underlying Shares that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE.

As at 31 December 2020

Interests of Directors and chief executive of our Company

As at 31 December 2020, the interests and short positions of our Directors and chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the HKSE pursuant to the Model Code, were as follows:

Long positions in ordinary shares of our Company

Number of ordinary shares held, capacity and nature of interest					
Name of Directors	Notes	Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of our Company's issued share capital (%)
Mr. Fok Tung Ling	(a)	24,864,339	678,115,129	702,979,468	25.55
Mr. Zhang Yue Jun	(b)	–	228,225,410	228,225,410	8.29
Mr. Xu Huijun	–	10,000,000	–	10,000,000	0.36
Mr. Bu Binlong	–	2,350,084	–	2,350,084	0.08
Mr. Wu Tielong	–	1,842,049	–	1,842,049	0.06

Long positions in share options of our Company

Name of Directors	Number of share options directly beneficially owned
Mr. Xu Huijun	15,000,000
Mr. Chang Fei Fu	7,600,000
Mr. Bu Binlong	10,100,000
Ms. Huo Xinru	6,050,000
Mr. Wu Tielong	8,450,000
Mr. Lau Siu Ki, Kevin	510,000
Dr. Lin Jin Tong	455,000
Ms. Ng Yi Kum	200,000

Notes:

- (a) These Shares are beneficially owned by Prime Choice Investments Limited. By virtue of his 100% shareholding of Prime Choice Investments Limited, Mr. Fok Tung Ling is deemed or taken to be interested in the 678,115,129 Shares owned by Prime Choice Investments Limited under the SFO.
- (b) These Shares are beneficially owned by Wise Logic Investments Limited. By virtue of his 100% shareholding in Wise Logic Investments Limited, Mr. Zhang Yue Jun is deemed or taken to be interested in the 228,225,410 Shares owned by Wise Logic Investments Limited under the SFO.

As at 31 December 2020, Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Bu Binlong and Ms. Huo Xinru beneficially held approximately 20.96%, 10.06%, 10.06% and 10.06% equity interest respectively in XHT No. 2 Partnership, and Mr. Wu Tielong beneficially held approximately 14.56% equity interest in XHT No. 3 Partnership, both of which being subsidiaries of our Company. Save for the above and to the knowledge of our Company, as at 31 December 2020, none of our Directors or chief executive of our Company had or was deemed to have any interest or short position in our Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which our Directors and chief executive of our Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to our Company and the HKSE pursuant to the Model Code.

Save as disclosed above, at no time during the year ended 31 December 2020 did our Directors or chief executive of our Company (including their spouses and children under the age of 18) have any interests in nor were they granted any right to subscribe for the Shares of our Company or its associated corporations (within the meaning of Part XV of the SFO), nor had they exercised any of such rights, required to be disclosed under the SFO.

Interests of Substantial Shareholders of our Company and other persons who are required to disclose their interests under the SFO

As at 31 December 2020, the following Substantial Shareholders (other than a Director or the chief executive of our Company) had interests or short positions in our Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE as follows:

Long Positions

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of our Company's issued share capital (%)
Prime Choice Investments Limited	–	Beneficial owner	678,115,129	24.65
Madam Chen Jing Na	(a)	Interest of spouse	702,979,468	25.55
Wise Logic Investments Limited	–	Beneficial owner	228,225,410	8.29
Madam Cai Hui Ni	(b)	Interest of spouse	228,225,410	8.29

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok Tung Ling and is deemed to be interested in the 702,979,468 Shares in which Mr. Fok Tung Ling is interested or deemed to be interested under the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 228,225,410 Shares in which Mr. Zhang Yue Jun is interested or deemed to be interested under the SFO.

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

- (i) 678,115,129 Shares between Prime Choice Investments Limited and Madam Chen Jing Na; and
- (ii) 228,225,410 Shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 31 December 2020, no person (other than our Directors or chief executive of our Company, whose interests are set out in the above) had registered an interest or short position in our Shares or underlying Shares that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE.

As at 31 December 2021

Interests of Directors and chief executive of our Company

As at 31 December 2021, the interests and short positions of our Directors and chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the HKSE pursuant to the Model Code, were as follows:

Long positions in ordinary shares of our Company

Number of ordinary shares held, capacity and nature of interest					
Name of Directors	Notes	Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of our Company's issued share capital (%)
Mr. Fok Tung Ling	(a)	24,864,339	678,115,129	702,979,468	25.296
Mr. Zhang Yue Jun	(b)	—	228,225,410	228,225,410	8.212
Mr. Xu Huijun	—	10,000,000	—	10,000,000	0.359
Mr. Bu Binlong	—	2,350,084	—	2,350,084	0.084
Mr. Wu Tielong	—	1,842,049	—	1,842,049	0.066
Mr. Lau Siu Ki, Kevin	—	260,000	—	260,000	0.009

Long positions in share options of our Company

Name of Directors	Number of share options directly beneficially owned
Mr. Xu Huijun	19,000,000
Mr. Chang Fei Fu	7,500,000
Mr. Bu Binlong	8,800,000
Ms. Huo Xinru	8,050,000
Mr. Wu Tielong	6,800,000
Mr. Lau Siu Ki, Kevin	250,000
Dr. Lin Jin Tong	400,000
Ms. Ng Yi Kum	200,000

Notes:

- (a) These Shares are beneficially owned by Prime Choice Investments Limited. By virtue of his 100% shareholding of Prime Choice Investments Limited, Mr. Fok Tung Ling is deemed or taken to be interested in the 678,115,129 shares owned by Prime Choice Investments Limited under the SFO.
- (b) These Shares are beneficially owned by Wise Logic Investments Limited. By virtue of his 100% shareholding of Wise Logic Investments Limited, Mr. Zhang Yue Jun is deemed or taken to be interested in the 228,225,410 shares owned by Wise Logic Investments Limited under the SFO.

As at 31 December 2021, Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Bu Binlong and Ms. Huo Xinru beneficially held approximately 20.96%, 10.06%, 10.06% and 10.06% equity interest respectively in XHT No. 2 Partnership, and Mr. Wu Tielong beneficially held approximately 17.68% equity interest in XHT No. 3 Partnership, both of which being subsidiaries of our Company. Save for the above and to the knowledge of our Company, as at 31 December 2021 none of the Directors or chief executive of our Company had or was deemed to have any interest or short position in our Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which our Directors and chief executive of our Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to our Company and the HKSE pursuant to the Model Code.

Save as disclosed above, at no time during the year ended 31 December 2021 did our Directors or chief executive of our Company (including their spouses and children under the age of 18) have any interests in nor were they granted any right to subscribe for our Shares of our Company or its associated corporations (within the meaning of Part XV of the SFO), nor had they exercised any of such rights, required to be disclosed under the SFO.

Interests of Substantial Shareholders of our Company and other persons who are required to disclose their interests under the SFO

As at 31 December 2021, the following Substantial Shareholders (other than a Director or the chief executive of our Company) had interests or short positions in our Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE as follows:

Long Positions

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of our Company's issued share capital (%)
Prime Choice Investments Limited	–	Beneficial owner	678,115,129	24.402
Madam Chen Jing Na	(a)	Interest of spouse	702,979,468	25.296
Wise Logic Investments Limited	–	Beneficial owner	228,225,410	8.212
Madam Cai Hui Ni	(b)	Interest of spouse	228,225,410	8.212

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok Tung Ling and is deemed to be interested in the 702,979,468 Shares in which Mr. Fok Tung Ling is interested or deemed to be interested under the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 228,225,410 Shares in which Mr. Zhang Yue Jun is interested or deemed to be interested under the SFO.

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

- (i) 678,115,129 Shares between Prime Choice Investments Limited and Madam Chen Jing Na;
and
- (ii) 228,225,410 Shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 31 December 2021, no person (other than our Directors or chief executive of our Company, whose interests are set out in the above) had registered an interest or short position in our Shares or underlying Shares that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE.

As at 30 June 2022

Interests of Directors and chief executive of our Company

As at 30 June 2022, the interests and short positions of our Directors and chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the HKSE pursuant to the Model Code, were as follows:

Long positions in ordinary shares of our Company

Number of ordinary shares held, capacity and nature of interest					
Name of Directors	Notes	Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of our Company's issued share capital (%)
Mr. Fok Tung Ling	(a)	10,364,339	678,115,129	688,479,468	24.769
Mr. Zhang Yue Jun	(b)	–	228,225,410	228,225,410	8.210
Mr. Xu Huijun	–	11,000,000	–	11,000,000	0.395
Mr. Chang Fei Fu	–	1,000,000	–	1,000,000	0.035
Mr. Bu Binlong	–	3,350,084	–	3,350,084	0.120
Mr. Wu Tielong	–	2,342,049	–	2,342,049	0.084
Mr. Lau Siu Ki, Kevin	–	260,000	–	260,000	0.009

Long positions in share options of our Company

Name of Directors	Number of share options directly beneficially owned
Mr. Xu Huijun	19,000,000
Mr. Chang Fei Fu	7,500,000
Mr. Bu Binlong	8,800,000
Ms. Huo Xinru	8,050,000
Mr. Wu Tielong	6,800,000
Mr. Lau Siu Ki, Kevin	250,000
Dr. Lin Jin Tong	400,000
Ms. Ng Yi Kum	200,000

Notes:

- (a) These 678,115,129 Shares are beneficially owned by Prime Choice Investments Limited, which is wholly owned by Mr. Fok Tung Ling. As such, Mr. Fok Tung Ling is deemed or taken to be interested in the 678,115,129 Shares owned by Prime Choice Investments Limited under the SFO.
- (b) These 228,225,410 Shares are beneficially owned by Wise Logic Investments Limited, which is wholly owned by Mr. Zhang Yue Jun. As such, Mr. Zhang Yue Jun is deemed or taken to be interested in the 228,225,410 Shares owned by Wise Logic Investments Limited under the SFO.

As at 30 June 2022, Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Bu Binlong and Ms. Huo Xinru beneficially held approximately 20.96%, 10.06%, 10.06% and 10.06% equity interest respectively in XHT No. 2 Partnership, and Mr. Wu Tielong beneficially held approximately 17.68% equity interest in XHT No. 3 Partnership, both of which being subsidiaries of our Company. Save for the above and to the knowledge of our Company, as at 30 June 2022, none of our Directors or chief executive of our Company had or was deemed to have any interest or short position in our Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which our Directors and chief executive of our Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to our Company and the HKSE pursuant to the Model Code.

Save as disclosed above, at no time during the six (6) months ended 30 June 2022 did our Directors or chief executive of our Company (including their spouses and children under the age of 18) have any interests in nor were they granted any right to subscribe for our Shares of our Company or its associated corporations (within the meaning of Part XV of the SFO), nor had they exercised any of such rights, required to be disclosed under the SFO.

Interests of Substantial Shareholders of our Company and other persons who are required to disclose their interests under the SFO

As at 30 June 2022, the following Substantial Shareholders (other than a Director or the chief executive of our Company) had interests or short positions in our Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE as follows:

Long Positions

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of our Company's issued share capital (%)
Prime Choice Investments Limited	–	Beneficial owner	678,115,129	24.396
Madam Chen Jing Na	(a)	Interest of spouse	688,479,468	24.769
Wise Logic Investments Limited	–	Beneficial owner	228,225,410	8.210
Madam Cai Hui Ni	(b)	Interest of spouse	228,225,410	8.210

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok Tung Ling and is deemed to be interested in the 688,479,468 Shares in which Mr. Fok Tung Ling is interested or deemed to be interested under the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 228,225,410 Shares in which Mr. Zhang Yue Jun is interested or deemed to be interested under the SFO.

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

- (i) 678,115,129 Shares between Prime Choice Investments Limited and Madam Chen Jing Na; and
- (ii) 228,225,410 Shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 30 June 2022, no person (other than our Directors or chief executive of our Company, whose interests are set out in the above) had registered an interest or short position in our Shares or underlying Shares that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE.

As at the Latest Practicable Date*Interests of Directors and chief executive of our Company*

As at the Latest Practicable Date, the interests and short positions of our Directors and chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the HKSE pursuant to the Model Code, were as follows:

Long positions in ordinary shares of our Company

Number of ordinary shares held, capacity and nature of interest					
Name of Directors	Notes	Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of our Company's issued share capital (%)
Mr. Fok Tung Ling	(a)	10,364,339	678,115,129	688,479,468	24.763
Mr. Zhang Yue Jun	(b)	–	228,225,410	228,225,410	8.208
Mr. Xu Huijun	–	11,000,000	–	11,000,000	0.395
Mr. Chang Fei Fu	–	1,000,000	–	1,000,000	0.035
Mr. Bu Binlong	–	4,510,084	–	4,510,084	0.162
Mr. Wu Tielong	–	2,342,049	–	2,342,049	0.084
Mr. Lau Siu Ki, Kevin	–	260,000	–	260,000	0.009

Long positions in share options of our Company

Name of Directors	Number of share options directly beneficially owned
Mr. Xu Huijun	19,000,000
Mr. Chang Fei Fu	7,500,000
Mr. Bu Binlong	8,800,000
Ms. Huo Xinru	8,050,000
Mr. Wu Tielong	6,800,000
Mr. Lau Siu Ki, Kevin	250,000
Dr. Lin Jin Tong	400,000
Ms. Ng Yi Kum	200,000

Notes:

- (a) These 678,115,129 Shares are beneficially owned by Prime Choice Investments Limited, which is wholly owned by Mr. Fok Tung Ling. As such, Mr. Fok Tung Ling is deemed or taken to be interested in the 678,115,129 Shares owned by Prime Choice Investments Limited under the SFO.
- (b) These 228,225,410 Shares are beneficially owned by Wise Logic Investments Limited, which is wholly owned by Mr. Zhang Yue Jun. As such, Mr. Zhang Yue Jun is deemed or taken to be interested in the 228,225,410 Shares owned by Wise Logic Investments Limited under the SFO.

As at the Latest Practicable Date, Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Bu Binlong and Ms. Huo Xinru beneficially held approximately 20.96%, 10.06%, 10.06% and 10.06% equity interest respectively in XHT No. 2 Partnership, and Mr. Wu Tielong beneficially held approximately 17.68% equity interest in XHT No. 3 Partnership, both of which being subsidiaries of our Company. Save for the above and to the knowledge of the Company, as at the Latest Practicable Date, none of our Directors or chief executive of our Company had or was deemed to have any interest or short position in our Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which our Directors and chief executive of our Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to our Company and the HKSE pursuant to the Model Code.

Save as disclosed above, at no time during the period from 1 July 2022 up to the Latest Practicable Date did our Directors or chief executive of our Company (including their spouses and children under the age of 18) have any interests in nor were they granted any right to subscribe for the shares of our Company or its associated corporations (within the meaning of Part XV of the SFO), nor had they exercised any of such rights, required to be disclosed under the SFO.

Interests of Substantial Shareholders of our Company and other persons who are required to disclose their interests under the SFO

As at the Latest Practicable Date, the following Substantial Shareholders (other than a Director or the chief executive of our Company) had interests or short positions in our Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE as follows:

Long Positions

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of our Company's issued share capital (%)
Prime Choice Investments Limited	–	Beneficial owner	678,115,129	24.390
Madam Chen Jing Na	(a)	Interest of spouse	688,479,468	24.763
Wise Logic Investments Limited	–	Beneficial owner	228,225,410	8.208
Madam Cai Hui Ni	(b)	Interest of spouse	228,225,410	8.208

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok Tung Ling and is deemed to be interested in the 688,479,468 Shares in which Mr. Fok Tung Ling is interested or deemed to be interested under the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 228,225,410 Shares in which Mr. Zhang Yue Jun is interested or deemed to be interested under the SFO.

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

- (i) 678,115,129 Shares between Prime Choice Investments Limited and Madam Chen Jing Na; and
- (ii) 228,225,410 Shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at the Latest Practicable Date, no person (other than our Directors or chief executive of our Company, whose interests are set out in the above) had registered an interest or short position in our Shares or underlying Shares that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to our Company and/or the HKSE.

SIGNIFICANT CHANGES IN PERCENTAGE OF OWNERSHIP

The following table sets out the significant changes in the shareholding of our Directors and substantial shareholders in our Company in the past three (3) years up to the Latest Practicable Date based on public disclosures on the HKSE website available as of the Latest Practicable Date. Save as disclosed below, based on public disclosures on the HKSE website available as of the Latest Practicable Date, there were no significant changes in the percentage of ownership of our Company in the past three (3) years up to the Latest Practicable Date.

Name of Directors and Shareholders	Percentage of Shareholding in our Company (%) ⁽¹⁾				
	As of FY2019	As of FY2020	As of FY2021	As of 30 June 2022	As of the Latest Practicable Date
Mr. Fok Tung Ling	29.56	25.55	25.29	24.76	24.76
Mr. Zhang Yue Jun	9.98	8.29	8.21	8.21	8.20
Mr. Xu Huijun	0.40	0.36	0.35	0.39	0.39
Mr. Chang Fei Fu	0.01	—	—	0.03	0.03
Mr. Bu Binlong	0.14	0.08	0.08	0.12	0.16
Ms. Huo Xinru	—	—	—	—	—
Mr. Wu Tielong	0.07	0.06	0.06	0.08	0.08
Mr. Lau Siu Ki, Kevin	—	—	0.01	0.01	0.01
Dr. Lin Jin Tong	—	—	—	—	—
Ms. Ng Yi Kum	—	—	—	—	—
Ms. Wong Lok Lam	—	—	—	—	—
Prime Choice Investments Limited ⁽²⁾	28.56	24.65	24.40	24.39	24.39
Wise Logic Investments Limited ⁽³⁾	9.98	8.29	8.21	8.21	8.20
Madam Chen Jing Na ⁽⁴⁾	29.56	25.55	25.29	24.76	24.76
Madam Cai Hui Ni ⁽⁵⁾	9.98	8.29	8.21	8.21	8.20

Notes:

(1) Rounded to two (2) decimal places.

- (2) The Shares are beneficially owned by Prime Choice Investments Limited, which is wholly owned by Mr. Fok Tung Ling. As such, Mr. Fok Tung Ling is deemed or taken to be interested in the Shares owned by Prime Choice Investments Limited under the SFO.
- (3) The Shares are beneficially owned by Wise Logic Investments Limited, which is wholly owned by Mr. Zhang Yue Jun. As such, Mr. Zhang Yue Jun is deemed or taken to be interested in the Shares owned by Wise Logic Investments Limited under the SFO.
- (4) Madam Chen Jing Na is the spouse of Mr. Fok Tung Ling and is deemed to be interested in the Shares in which Mr. Fok Tung Ling is interested or deemed to be interested under the SFO.
- (5) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the Shares in which Mr. Zhang Yue Jun is interested or deemed to be interested under the SFO.

As at the Latest Practicable Date, the percentage of shareholding in our Company held by other Shareholders (save for the Directors and the substantial shareholders) is approximately 66.38%.

The Shares of our Company held by our Directors and substantial shareholders do not carry different voting rights from any other Shares of our Company.

To our knowledge, save as disclosed in this Introductory Document, our Company is not directly or indirectly owned or controlled, whether severally or jointly, by any person or government.

We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of our Company, or any contractual undertakings for any of our Shareholders to observe a moratorium on the transfer or disposal of his or her interest in our Shares.

Save as disclosed above and in the section entitled “*Management and Corporate Governance – Compensation of Directors and Executive Officers*” of this Introductory Document, none of our Directors or Executive Officers have, or have the right to be given, an option to subscribe for or purchase any securities or securities-based derivatives contracts of our Company as at the Latest Practicable Date.

Save as disclosed above and in the section entitled “*Management and Corporate Governance – Compensation of Directors and Executive Officers*” of this Introductory Document, no securities or securities-based derivatives contracts were issued or agreed to be issued by our Company for cash or for a consideration other than cash during the last three (3) years preceding the Latest Practicable Date.

As at the Latest Practicable Date, a wholly-owned subsidiary of our Company holds 8,480,117 Shares in our Company pursuant to the Share Award Scheme. Save for the foregoing, there are no Shares in our Company that are held by or on behalf of our Company or by the subsidiaries of our Company.

DESCRIPTION OF SHARE CAPITAL

OVERVIEW

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2002 under the Cayman Islands Companies Act.

As at the Latest Practicable Date, our registered and authorised share capital is HK\$500,000,000 divided into 5,000,000,000 Shares with a par value of HK\$0.10 each and our issued and paid-up capital is HK\$278,018,917 divided into 2,780,189,168 Shares each with a par value of HK\$0.10. All of our 2,780,189,168 issued Shares are in registered form and fully paid up. There is only one (1) class of shares in the capital of our Company, being the Shares.

The table below sets out the share capital and the number of Shares outstanding as at the beginning and end of the most recently completed financial year, being 1 January 2021 and 31 December 2021 respectively:–

	Number of Shares in issue	Issued capital (HK\$'000)	Treasury shares (HK\$'000)	Share premium account (HK\$'000)	Total (HK\$'000)
As at 1 January 2021	2,750,593,918	275,060	(22,818)	1,437,024	1,689,266
Share option scheme – Exercise of share options	28,317,250	2,832	–	47,114	49,946
As at 31 December 2021	2,778,911,168	277,892	(22,818)	1,484,138	1,739,212

SUMMARY OF SELECTED PROVISIONS OF OUR ARTICLES OF ASSOCIATION

The following is a summary of material provisions of our Articles of Association in relation to our share capital. The Cayman Islands Companies Act differs from laws applicable to Singapore companies and their shareholders. A comparison of certain aspects of the Cayman Islands Companies Act applicable to us and the Singapore Companies Act applicable to Singapore companies is set forth in the section entitled “*Appendix C – Comparison of Selected Cayman Islands Corporate Law Provisions and Singapore Corporate Law Provisions*” to this Introductory Document. The summary below does not purport to be complete and is qualified in its entirety by reference to our Articles of Association and the applicable provisions of the Cayman Islands Companies Act.

Objects of Our Company

The objects of our Company are unrestricted and we have the full power and authority to carry out any object not prohibited by the law of the Cayman Islands.

Voting Rights

Subject to any special rights or restrictions as to voting for the time being attached to any Shares by or in accordance with the Articles of Association of our Company, each Shareholder of a fully paid-up Share present in person or by proxy or, in the case of a Shareholder being a corporation, by its authorised representative, shall be entitled to one (1) vote on all matters subject to voting at general meetings of our Company. A resolution put to the vote at a general meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a

resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every Shareholder present in person (or being a corporation, is present by a duly authorised representative) or by proxy(ies) shall have one (1) vote provided that where more than one (1) proxy is appointed by a Shareholder which is a clearing house (or its nominee(s)), each such proxy shall have one (1) vote on a show of hands. All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by the Cayman Islands Companies Act and our Memorandum and Articles of Association. In the case of an equality of votes, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other votes he may have.

An ordinary resolution to be passed at a meeting by the Shareholders requires the affirmative vote of a simple majority of the votes cast by such Shareholders entitled to vote at a meeting, while a special resolution requires the affirmative vote by a majority of no less than three-fourths of the votes cast by such Shareholders entitled to vote at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our Memorandum of Association and/or our Articles of Association. Our Company may from time to time by ordinary resolution in accordance with the Cayman Islands Companies Act alter the conditions of our Memorandum of Association to (i) increase the amount of our authorised share capital, (ii) consolidate all or any of our share capital into Shares of larger amount than our existing Shares, (iii) divide our Shares into several classes without prejudice to any special rights previously conferred on the holders of existing share attached thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by our Company in general meeting, (iv) subdivide our Shares or any of them into Shares of an amount smaller than that fixed by our Memorandum and Articles of Association, and (v) cancel any unissued Shares as provided in the Articles of Association of our Company. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the Shareholders of our Company, as permitted by the Cayman Islands Companies Act and our Memorandum and Articles of Association.

Dividends

The holders of our ordinary shares are entitled to such dividends as may be declared by our Board of Directors, subject to our Articles of Association. In addition, subject to the Cayman Islands Companies Act, our Company in general meeting may from time to time declare dividends in any currency to be paid to our Shareholders but no dividend may exceed the amount recommended by our Directors. In either case, under the laws of the Cayman Islands, our Company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business.

All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by our Board of Directors for the benefit of our Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to our Company.

Election, Removal and Remuneration of Directors

Unless otherwise determined by our Company in general meeting, the number of directors shall not be less than two (2) directors. There shall be no maximum number of directors unless otherwise determined from time to time by the Shareholders in general meeting. Our Company may from time to time in general meeting by ordinary resolution increase or reduce the number of directors but so that the number of directors shall never be less than two (2).

The Board of Directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the following general meeting of our Company and shall then be eligible for re-election. At each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) who have been longest in office shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three (3) years. Subject to any provision to the contrary in the Articles of Association of our Company, the Shareholders may also, at any general meeting by ordinary resolution, remove a director at any time before the expiration of his period of office, and the vacancy may be filled by the election or appointment by ordinary resolution of the Shareholders at the meeting at which such director was removed.

Our Directors shall not be required to hold any shares in our Company by way of qualification.

The ordinary remuneration of the directors shall from time to time be determined by our Company in general meeting.

General Meetings of shareholders

An annual general meeting of our Company shall be held in each year (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting) at such time and place as may be determined by our Board.

Each Shareholders' general meetings, other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by our Board. Our Board may whenever it thinks fit call extraordinary general meetings. An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty-one (21) clear days' notice. All other extraordinary general meetings may be called by not less than fourteen (14) clear days' notice but a general meeting may be called by shorter notice, subject to the Cayman Islands Companies Act, if it is so agreed: (a) in the case of a meeting called as an annual general meeting, by all the Shareholders entitled to attend and vote thereat; and (b) in the case of any other meeting, by a majority in number of the Shareholders having the right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued Shares giving that right.

Any one (1) or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of our Company carrying the right of voting at general meetings of our Company shall at all times have the right, by written requisition to our Board or the secretary of our Company, to require an extraordinary general meeting to be called by our Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit our Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our Board shall be reimbursed by our Company and paid to the requisitionist(s).

Transfer of Shares

Subject to the restrictions of our Memorandum and Articles of Association, as applicable, any of our Shareholders may transfer any or all of his or her ordinary shares by an instrument of transfer in the usual or common form or in a form prescribed by the HKSE or in any other form approved by our Board of Directors and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as our Board may approve from time to time. The aforementioned procedure in relation to transfers of shares shall apply to the investors holding Shares deposited with CDP (who shall instruct CDP which hold Shares for and on behalf of such investors) as we will continue to comply with the rules of HKSE, which is our home exchange, after the Introduction.

Our Board may, in its absolute discretion, and without giving any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four (4) joint holders or a transfer of any share (not being a fully paid up share) on which our Company has a lien. Our Board of Directors may also decline to recognise any instrument of transfer unless:

- (a) a fee of such maximum sum as the HKSE may determine to be payable or such lesser sum as our Board may from time to time require is paid to our Company in respect thereof;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is lodged at the registered office of our Company or such other place at which the share register is kept in accordance with the Cayman Islands Companies Act or the registration office (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as our Board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); and
- (d) if applicable, the instrument of transfer is duly and properly stamped.

If our Directors refuse to register a transfer, they shall notify the transferee within two (2) months after the date on which the instrument of transfer was lodged, and send to each of the transferor and transferee the notice of refusal.

The registration of transfers of Shares or of any class of Shares may, after notice has been given by advertisement in an appointed newspaper or any other newspapers or by any other means in accordance with the requirements of the HKSE to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as our Board may determine.

Liquidation

On the winding-up of our Company, if the assets available for distribution among our Shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding-up, the excess shall be distributed *pari passu* among our Shareholders in proportion to the amount paid up on the Shares held by them respectively. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that, as nearly as may be, the losses are borne by our Shareholders in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

Calls on Shares and Forfeiture of Shares

Subject to the Articles of Association of our Company and to the terms of allotment, our Board of Directors may from time to time make calls upon Shareholders in respect of any moneys unpaid on their Shares (whether on account of the nominal value of the shares or by way of premium), and each Shareholder shall (subject to being given at least 14 clear days' notice specifying the time and place of payment) pay to our Company as required by such notice the amount called on his Shares. The Shares that have been called upon and remain unpaid may be subject to forfeiture as provided in the Articles of Association of our Company.

Repurchase, Redemption and Surrender of Shares

Subject to the provisions of the Cayman Islands Companies Act, the rules of the HKSE and the Memorandum and Articles of Association of our Company, and to any special rights conferred on the holders of any Shares or attached to any class of Shares, Shares may be issued on the terms that they may be, or at the option of our Company or the holders are, liable to be redeemed on such terms and in such manner, including out of capital, as our Board may deem fit. Subject to the provisions of the Cayman Islands Companies Act, the Memorandum and Articles of Association of our Company and the rules of the HKSE, any power of our Company to purchase or otherwise acquire its own Shares shall be exercisable by our Board in such manner, upon such terms and subject to such conditions as it thinks fit. The aforementioned procedures in relation to repurchase and redemption of shares respectively shall apply to the investors holding Shares via CDP (who shall instruct CDP which hold Shares for and on behalf of such investors) as we will continue to comply with the rules of HKSE, which is our home exchange, after the Introduction.

Under the Cayman Islands Companies Act, the redemption or repurchase of any Share may be paid out of our Company's profits or out of the proceeds of a new issue of Shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Cayman Islands Companies Act, no such Share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no Shares outstanding or (c) if our Company has commenced liquidation. In addition, our Company may accept the surrender of any fully paid Share for no consideration.

Variation of Rights of Shares

Subject to the provisions of the Cayman Islands Companies Act and the Memorandum and Articles of Association of our Company, all or any of the special rights for the time being attached to the Shares or any class of Shares may, unless otherwise provided by the terms of issue of the Shares of that class, from time to time (whether or not our Company is being wound-up) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. The special rights conferred upon the holders of any Shares or class of Shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such Shares, be deemed to be varied, modified or abrogated by the creation or issue of further Shares ranking *pari passu* therewith.

Alteration of Capital

Our Company may from time to time by ordinary resolution in accordance with the Cayman Islands Companies Act alter the conditions of our Memorandum of Association to:

- (a) increase our share capital by such sum, to be divided into Shares of such classes and amount, as the resolution shall prescribe;
- (b) consolidate and divide all or any of our share capital into Shares of larger amount than our existing Shares;
- (c) divide our Shares into several classes and without prejudice to any special rights previously conferred on the holders of existing Shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by our Company in general meeting, as the Directors may determine provided always that where our Company issues Shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such Shares and where the equity capital includes Shares with different voting rights, the designation of each class of Shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”;
- (d) sub-divide our existing Shares, or any of them into shares of a smaller amount than is fixed by our Memorandum and Articles of Association (subject, nevertheless, to the Cayman Islands Companies Act), and may by such resolution determine that, as between the holders of the Shares resulting from such sub-division, one (1) or more of the Shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the others as our Company has the power to attach to unissued or new Shares; and
- (e) cancel any Shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the Shares so cancelled or, in the case of Shares, without par value, diminish the number of Shares into which its capital is divided.

HISTORY OF SHARE CAPITAL

The following tables set forth the changes in the issued and paid-up capital of our Company and each of our Principal Subsidiaries within the three (3) years preceding the Latest Practicable Date. Except as disclosed below, there were no changes in the issued and paid-up capital of our Company and each of our Principal Subsidiaries within the three (3) years preceding the Latest Practicable Date⁽¹⁾.

Our Company

Date/Period of Issue/Change	No. of Shares Issued/Increase in Share Capital	Issue Price per Share (HK\$)	Resultant Issued Share Capital		Reason for Issue/Change
			No. of Shares	Approx. HK\$'000	
1 January 2019 to 31 December 2019	66,513,958	0.10	2,485,988,818	248,599	The subscription rights attaching to 43,600,308 share options, 19,823,650 share options and 3,090,000 share options were exercised at the adjusted exercise prices of HK\$1.354 per Share, HK\$1.255 per Share and HK\$1.170 per Share respectively, resulting in the issue of 66,513,958 Shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$87,528,000.
1 January 2020 to 31 December 2020	34,605,100	0.10	2,520,593,918	252,060	The subscription rights attaching to 19,692,600 share options, 9,676,500 share options and 5,236,000 share options were exercised at the exercise prices of HK\$1.255 per Share, HK\$1.170 per Share and HK\$1.890 per Share respectively, resulting in the issue of 34,605,100 Shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$45,932,000.

Date/Period of Issue/Change	No. of Shares Issued/Increase in Share Capital	Issue Price per Share (HK\$)	Resultant Issued Share Capital		Reason for Issue/Change
			No. of Shares	Approx. HK\$'000	
8 May 2020	230,000,000	0.10	2,750,593,918	275,060	Our Company completed the top-up placing of 282,000,000 Shares of HK\$0.10 each at a placing price of HK\$3.05 per Share and the subscription of 230,000,000 new Shares of HK\$0.10 each at a subscription price of HK\$3.05 per Share.
1 January 2021 to 31 December 2021	28,317,250	0.10	2,778,911,168	277,892	The subscription rights attaching to 21,648,250 share options, 6,105,500 share options and 563,500 share options were exercised at the adjusted exercise prices of HK\$1.255 per Share, HK\$1.170 per Share and HK\$1.890 per Share respectively, resulting in the issue of 28,317,250 Shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$35,159,000.
1 January 2022 to 30 June 2022	634,000	0.10	2,779,545,168	277,955	The subscription rights attaching to 596,000 share options and 38,000 share options were exercised at the exercise prices of HK\$1.170 per share and HK\$1.890 per Share respectively, resulting in the issue of 634,000 Shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$769,000.

Date/Period of Issue/Change	No. of Shares Issued/Increase in Share Capital	Issue Price per Share (HK\$)	Resultant Issued Share Capital		Reason for Issue/Change
			No. of Shares	Approx. HK\$'000	
1 July 2022 to 16 December 2022	644,000	0.10	2,780,189,168	278,019	The subscription rights attaching to 644,000 share options were exercised at the exercise price of HK\$1.170 per share, resulting in the issue of 644,000 Shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$753,000.

Other Principal Subsidiaries

Date of Issue/ Change	No. of Shares/ Amount of registered capital issued or changed	Issue Price per share/Price per registered capital	Resultant Issued Share Capital/ Resultant Issued Registered Capital following the issuance/ change		Reason for Issue/Change
			No. of Shares/ Registered capital	Amount/ Paid-up capital	
Comba Technologies Sdn. Bhd.					
22 March 2019	349,998	Approximately RM 1	350,000	RM350,000	Comba Technologies Sdn. Bhd. was required to increase its share capital due to minimum capitalisation requirements stipulated in the customer's tender documents.

Date of Issue/ Change	No. of Shares/ Amount of registered capital issued or changed	Issue Price per share/Price per registered capital	Resultant Issued Share Capital/ Resultant Issued Registered Capital following the issuance/ change		Reason for Issue/Change
			No. of Shares/ Registered capital	Amount/ Paid-up capital	
CTSL					
21 August 2020	10,000 (non-voting deferred shares cancelled)	HK\$1	2 (being ordinary shares remaining in the share capital of CTSL)	HK\$2	10,000 non-voting deferred shares in the share capital of CTSL (representing 100% of such shares in that class) as held by Mr. Fok Tung Ling and Mr. Zhang Yue Jun were cancelled (and the share capital of CTSL reduced by HK\$10,000 accordingly) as part of our Group's reorganisation in streamlining shareholdings in members of our Group.
Comba Guangzhou					
24 October 2019	HK\$243,000,000	HK\$1	HK\$542,000,000	HK\$542,000,000	Injection of capital by CTSL to Comba Guangzhou.
Comba Network					
23 June 2020	US\$2,488,800	US\$3.08	49,153,800	US\$49,153,800	Injection of capital by XHT No. 1 Partnership, XHT No. 3 Partnership, XHT No. 5 Partnership, and XHT No. 6 Partnership.
8 December 2020	352,000,000	RMB1	352,000,000	RMB352,000,000	Conversion of Comba Network from a limited liability company to a joint stock limited company.
29 January 2021	16,586,416	RMB5.68	RMB368,586,416	RMB368,586,416	Injection of capital by Intel Asia-Pacific Research and Development Co., Ltd. (英特尔亚太研发有限公司).

Date of Issue/ Change	No. of Shares/ Amount of registered capital issued or changed	Issue Price per share/Price per registered capital	Resultant Issued Share Capital/ Resultant Issued Registered Capital following the issuance/ change		Reason for Issue/Change
			No. of Shares/ Registered capital	Amount/ Paid-up capital	
29 April 2021	6,552,436	RMB3.05	RMB375,138,852	RMB375,138,852	Injection of capital by XHT No. 9 Partnership, XHT No. 10 Partnership, XHT No. 11 Partnership, XHT No. 12 Partnership.
2 July 2021	19,166,409	RMB6.78	RMB394,305,261	RMB394,305,261	Injection of capital by Guangdong Yuecai Industry Investment Fund Partnership (Limited Partnership) (广东粤财产业投资基金合伙企业(有限合伙)) and Beijing Chenshan Venture Capital Fund Partnership (Limited Partnership) (北京晨山创业投资基金合伙企业(有限合伙)).
23 August 2021	7,371,696	RMB6.78	RMB401,676,957	RMB401,676,957	Injection of capital by Shenzhen Caizhi Chuangying Private Equity Investment Enterprise (Limited Partnership) (深圳市财智创赢私募股权投资企业(有限合伙)) and Shenzhen Dacheng Chuanghong Private Equity Investment Enterprise (Limited Partnership) (深圳市达晨创鸿私募股权投资企业(有限合伙)).

Note:

(1) The concept of share capital is not applicable to PRC limited partnerships under the applicable PRC laws.

CONNECTED TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS

The following definitions apply in this section unless the context otherwise requires:

- connected person*** : has the meaning ascribed to it under the Hong Kong Listing Rules, i.e.:–
- (a) a director, chief executive or substantial shareholder of the listed issuer or any of its subsidiaries;
 - (b) a person who was a director of the listed issuer or any of its subsidiaries in the last 12 months;
 - (c) a supervisor of a PRC issuer or any of its subsidiaries;
 - (d) an associate (as defined under the Hong Kong Listing Rules) of any of the above persons;
 - (e) a connected subsidiary (as defined under the Hong Kong Listing Rules); or
 - (f) a person deemed to be connected by the HKSE.
- connected transactions*** : Connected transactions are transactions with connected persons, and specified categories of transactions with third parties that may confer benefits on connected persons through their interests in the entities involved in the transactions. They may be one-off connected transactions or continuing connected transactions.

COMPLIANCE WITH CONNECTED TRANSACTION REQUIREMENTS UNDER THE HONG KONG LISTING RULES

As a company listed on the HKSE, we are required to comply with (among other things) the requirements in respect of connected transactions under Chapter 14A of the Hong Kong Listing Rules. Pursuant to the Hong Kong Listing Rules, we may, depending on the type and size of the connected transaction, be required to seek approval from our Shareholders in the event that we propose to enter into a connected transaction with a connected person.

DETAILS OF PREVIOUS CONNECTED TRANSACTIONS

Details of the connected transactions between our Group and connected persons of our Group for FY2019, FY2020 and FY2021 (as disclosed in our Company's annual reports for the respective financial years) and for the period from 1 January 2022 to the Latest Practicable Date (based on the relevant announcements and circulars published by our Company for the relevant period) are as follows:

FY2019

During FY2019, our Group had subsisting then the following connected and continuing connected transactions, all details of which are disclosed in compliance with the requirements of Chapter 14A of the Hong Kong Listing Rules.

Connected Transactions

On 22 December 2016, Cascade Technology Limited (“**Cascade Technology**”), an indirect wholly-owned subsidiary of our Company, entered into a loan agreement (the “**Loan Agreement**”) with WaveLab Holdings pursuant to which Cascade Technology agreed to extend a loan having a principal amount of up to HK\$39,000,000 to WaveLab Holdings at the rate of LIBOR at the date of actual drawing plus 3% per annum during the period from 1 January 2017 to 31 December 2019.

The purpose of the loan is used for the working capital of WaveLab Holdings and its subsidiaries. Cascade Technology may, at any time upon giving notice in writing, demand immediate repayment of all or part of the outstanding loan and payment of any other amount (including interest) accrued thereon.

As Mr. Zheng Guobao, who is a former executive Director (having resigned with effect from 23 March 2018) and a shareholder of our Company, is also a substantial shareholder of WaveLab Holdings, WaveLab Holdings was a connected person of our Company under the Hong Kong Listing Rules and all the transactions contemplated thereunder constitute connected transactions for our Company under the Hong Kong Listing Rules.

All the loans provided by our Group to WaveLab Holdings, and receivables due from WaveLab Holdings have been fully repaid.

Continuing Connected Transactions

On 22 December 2016, Comba Telecom Systems Investments Limited (“**Comba Systems BVI**”), a direct wholly-owned subsidiary of our Company, entered into the following with WaveLab Holdings: (i) an agreement (the “**WTAP Agreement**”) for the sale of wireless transmission and access products (including but not limited to digital microwave outdoor units, radio frequency units, block up convertors and such other products) used in connection with microwave transmission (the “**WTAPs**”) and provision of the relevant maintenance services for the WTAPs from WaveLab Holdings and/or its subsidiaries to Comba Systems BVI and/or its subsidiaries (excluding WaveLab Holdings and its subsidiaries) (the “**WTAP Transaction**”); and (ii) an agreement (the “**WTAP-Components Agreement**”) for the sale of the necessary components (including but not limited to diplexers and other components) used in the manufacture of WTAPs and the provision of related services by Comba Systems BVI and/or its subsidiaries (excluding WaveLab Holdings and its subsidiaries) to WaveLab Holdings and/or its subsidiaries (the “**WTAP-Components Transaction**”), each of which is for a term from 1 January 2017 to 31 December 2019 and is subject to the early termination provisions incidental therein.

By virtue of the relationship between Mr. Zheng Guobao and WaveLab Holdings as disclosed above, WaveLab Holdings was a connected person of our Company under the Hong Kong Listing Rules and the above transactions contemplated constitute continuing connected transactions for our Company under the Hong Kong Listing Rules.

As set out in the announcement of our Company dated 22 December 2016, the annual caps for the WTAP Transaction and the WTAP-Components Transaction for FY2019 were HK\$159,000,000 and HK\$6,200,000, respectively. The total consideration for the WTAP Transaction and the WTAP-Components Transaction during FY2019 amounted to HK\$125,659,000 and HK\$1,710,000, respectively which are within the relevant annual caps of HK\$159,000,000 and HK\$6,200,000, respectively.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed in our Company's annual report for FY2019 that these continuing connected transactions were entered into:

- (i) in the ordinary and usual course of business of our Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of our Shareholders as a whole.

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

FY2020

CONNECTED TRANSACTIONS

For the purpose of implementation of the share incentive scheme (the "**Scheme**") adopted by our Company on 29 May 2020 with respect to the shares of Comba Network, on 10 June 2020, Comba Consulting as general partner entered into three (3) limited partnership agreements dated 10 June 2020 (the "**Non-G Limited Partnership Agreements**") with the Non-G Limited Partners and on 1 June 2020 and 10 June 2020, Comba Consulting as general partner respectively entered into one and three (3) limited partnership agreements (the "**G Limited Partnership Agreements**") with the G Limited Partners in relation to the establishment and management of, respectively:—

- (i) the Non-G Partnerships; and
- (ii) the G Partnerships.

Pursuant to the Scheme:

1. incentive shares to be awarded to the selected participants under the Scheme (the "**Selected Participants**") would be the shares of Comba Network;
2. Comba Consulting acts as general partner, together with the relevant Selected Participants who acts as limited partners, to set up seven (7) limited liability partnerships in the PRC;
3. the partnerships are divided into two (2) categories: G Partnership and Non-G Partnership. Four (4) G Partnerships have been set up to hold the relevant incentive shares for and on behalf of the relevant employees of Comba Network Group and three (3) Non-G Partnerships have been set up to hold the relevant incentive shares for and on behalf of the relevant employees and consultants of our Group (other than Comba Network Group); and
4. for the purpose of vesting of the incentive shares to the Selected Participants, the G Partnerships acquired certain new shares of Comba Network by way of capital increase for a total consideration of RMB54,400,000 while the Non-G Partnerships purchased certain existing shares of Comba Network from CTSL, a wholly-owned subsidiary of our Company, at the total consideration of RMB57,700,000.

The adoption of the Scheme was to recognise and reward the contributions of the Selected Participants for the growth and development of and to provide them with incentives in order to retain them for the continual operation, development and long-term growth of our Group and to attract suitable personnel for further development of our Group, in particular, Comba Network Group. The establishment of the Non-G Partnerships and G-Partnerships was to hold the incentive shares under the Scheme for and on behalf of the relevant Selected Participants in order to protect the partnership interests and maximise the profit for the Non-G Partnerships and G-Partnerships.

Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Bu Binlong and Ms. Huo Xinru, the limited partners of the XHT No. 2 Partnership (a subsidiary of our Company) and all being Directors, are considered to be the connected persons of our Company. The total capital commitment of the XHT No. 2 Partnership was RMB23.85 million. The capital commitment of Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Bu Binlong and Ms. Huo Xinru in XHT No. 2 Partnership were RMB5.0 million, RMB2.4 million, RMB2.4 million and RMB2.4 million respectively. They together beneficially hold more than 10% of the interest in XHT No. 2 Partnership and XHT No. 2 Partnership was a connected subsidiary of our Company under Rule 14A.16 of the Hong Kong Listing Rules and hence a connected person of our Company.

Mr. Wu Tielong, the limited partner of the XHT No. 3 Partnership (a subsidiary of our Company) and a Director, was considered to be the connected person of our Company. The total capital commitment of the XHT No. 3 Partnership at the time was RMB19.22 million. The capital commitment of Mr. Wu Tielong in XHT No. 3 Partnership was RMB2.8 million. Mr. Wu Tielong beneficially held more than 10% of the interest in XHT No. 3 Partnership and XHT No. 3 Partnership is a connected subsidiary of our Company under Rule 14A.16 of the Hong Kong Listing Rules and hence a connected person of our Company.

As XHT No. 2 Partnership and XHT No. 3 Partnership were considered to be connected persons of our Company, the relevant acquisitions of shares made by XHT No. 2 Partnership and XHT No. 3 Partnership constituted connected transactions of our Company under Chapter 14A of the Hong Kong Listing Rules.

FY2021

CONNECTED TRANSACTIONS

Pursuant to partnership interest transfer agreements (the “**Transfer Agreements**”) entered into between (i) Comba Consulting, (ii) the Existing G Limited Partners and (iii) the Additional G Limited Partners on 12 April 2021, Comba Consulting, as general partner of the Existing G Partnerships, transferred its limited partnership interests in the Existing G Partnerships in the aggregate amount of RMB14 million to certain Existing G Limited Partners and Additional G Limited Partners, as limited partners of the Existing G Partnerships, including RMB13.16 million to certain Existing G Limited Partners and RMB0.84 million to the Additional G Limited Partners (the “**Transfer of LP Interests**”). Please refer to the section entitled “*Management and Corporate Governance – Compensation of Directors and Executive Officers – Summary of the Share Incentive Scheme*” of this Introductory Document for more details on the Transfer of LP Interests.

Upon the completion of the Transfer of LP Interests, the Existing G Partnerships held approximately 4.75% of the enlarged equity interest of Comba Network.

The table below sets out the incentive shares awarded to Mr. Wu Tielong (who was a connected person at the issuer level) and directors of subsidiaries of our Company (who were connected persons at the subsidiary level) in the Existing G Partnerships upon completion of the Transfer of LP Interests:

Name	Partnerships	Additional capital commitment acquired under the Transfer of LP Interests (RMB)	Total Capital Commitment (RMB)	% as to respective Partnerships in relation to additional capital commitment upon completion of the Transfer of LP Interests	% as to respective Partnerships in relation to total capital commitment upon completion of the Transfer of LP Interests
<i>Director of our Company</i>					
Mr. Wu Tielong	XHT No. 3 Partnership	600,000	3,400,000	3.12	17.68
<i>Directors of subsidiaries of our Company</i>					
Mr. Li Yuwen	XHT No. 3 Partnership	500,000	2,900,000	2.60	15.09
Mr. Qiu Caixia	XHT No. 3 Partnership	400,000	1,600,000	2.08	8.32
Mr. Yi Xiaowen	XHT No. 3 Partnership	100,000	650,000	0.52	3.38
Mr. Shen Chunbo	XHT No. 5 Partnership	100,000	300,000	0.84	2.52
Mr. Sun Tao	XHT No. 6 Partnership	1,100,000	1,600,000	8.89	12.92

Mr. Wu Tielong, the limited partner of XHT No. 3 Partnership and a non-executive director of our Company, was considered to be a connected person of our Company. The total capital commitment of Mr. Wu Tielong in XHT No. 3 Partnership was RMB3,400,000 (including his capital commitment of RMB2,800,000 on 10 June 2020 and additional capital commitment of RMB600,000 acquired on 12 April 2021). Mr. Wu Tielong beneficially held more than 10% of the interest in XHT No. 3 Partnership and XHT No. 3 Partnership was a connected subsidiary of our Company under Rule 14A.16 of the Hong Kong Listing Rules and hence a connected person of our Company. The relevant Transfer of LP Interests to Mr. Wu Tielong constituted a connected transaction of our Company under Chapter 14A of the Hong Kong Listing Rules.

Upon completion of the Transfer of LP Interests, XHT No. 2 Partnership and XHT No. 3 Partnership (the “**Connected Partnerships**”) continued to be interested in approximately 3.76% of the equity interest in Comba Network at the consideration of RMB43,070,000. Given that the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) in relation to the transactions of the Connected Partnerships pursuant to the Scheme is more than 0.1% but less than 5% (on an aggregate basis), the transactions of the Connected Partnerships pursuant to the Scheme were subject to the reporting and announcement requirements but exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The table below sets out the detailed shareholding structure of Comba Network and our Company’s interest in Comba Network (through our Subsidiaries) immediately before the completion of the Transfer of LP Interests and the New Share Acquisitions:

	Immediately before completion of the Transfer of LP Interests and the New Share Acquisitions			Immediately after completion of the Transfer of LP Interests and the New Share Acquisitions		
	Percentage of the respective shareholding held by Comba Consulting in the relevant Non-G Partnerships/ G Partnerships (%)	Percentage of Comba Network held by the respective shareholder (%)	Percentage of Comba Network held by our Company through the respective shareholder (%)	Percentage of the respective shareholding held by Comba Consulting in the relevant Non-G Partnerships/ G Partnerships (%)	Percentage of Comba Network held by the respective shareholder (%)	Percentage of Comba Network held by our Company through the respective shareholder (%)
Shareholder						
CTSL	–	85.53	85.53	–	84.04	84.04
<i>Non-G Partnership</i>						
XHT No. 2 Partnership	18.03	2.12	0.3822	18.03	2.08	0.3755
XHT No. 7 Partnership	20.08	1.17	0.2349	20.08	1.15	0.2314
XHT No. 8 Partnership	18.16	1.84	0.3341	18.16	1.80	0.3275
<i>Existing G Partnership</i>						
XHT No. 1 Partnership	20.64	0.97	0.2002	0.09	0.95	0.0009

	Immediately before completion of the Transfer of LP Interests and the New Share Acquisitions			Immediately after completion of the Transfer of LP Interests and the New Share Acquisitions		
Shareholder	Percentage of the respective shareholding held by Comba Consulting in the relevant Non-G Partnerships/ G Partnerships (%)	Percentage of Comba Network held by the respective shareholder (%)	Percentage of Comba Network held by our Company through the respective shareholder (%)	Percentage of the respective shareholding held by Comba Consulting in the relevant Non-G Partnerships/ G Partnerships (%)	Percentage of Comba Network held by the respective shareholder (%)	Percentage of Comba Network held by our Company through the respective shareholder (%)
XHT No. 3 Partnership	39.91	1.71	0.6825	0.16	1.68	0.0026
XHT No. 5 Partnership	16.39	1.06	0.1737	0.67	1.04	0.0070
XHT No. 6 Partnership	18.58	1.10	0.2044	0.40	1.08	0.0044
Intel Asia Pacific Research and Development Ltd.	–	4.50	–	–	4.42	–
New G Partnership						
XHT No. 9 Partnership	–	–	–	0.63	0.42	0.0026
XHT No. 10 Partnership	–	–	–	0.56	0.47	0.0026
XHT No. 11 Partnership	–	–	–	0.57	0.46	0.0026
XHT No. 12 Partnership	–	–	–	0.65	0.41	0.0026
Total		100	87.74		100	85.00

From 1 January 2022 up to the Latest Practicable Date

Based on the relevant announcements and circulars published by our Company for the period from 1 January 2022 to the Latest Practicable Date, our Group had not entered into any connected transactions for the period from 1 January 2022 to the Latest Practicable Date.

RELATED PARTY TRANSACTIONS

Our Group had no significant transactions with related parties (as such term is defined pursuant to the applicable accounting standards adopted by our Company) for FY2019, FY2020 and FY2021 (as disclosed in our Company's annual reports for the respective financial years) and for the period from 1 January 2022 to the Latest Practicable Date (based on the relevant announcements and circulars published by our Company for the relevant period) and had no significant outstanding balances with related parties as at the end of each reporting period.

The table below sets out the compensation of key management personnel of our Group (which constituted related party transactions pursuant to the applicable accounting standards adopted by our Company) for FY2019, FY2020 and FY2021 (as disclosed in our Company's annual reports for the respective financial years) and for the period from 1 January 2022 to the Latest Practicable Date (based on the relevant announcements and circulars published by our Company for the relevant period):

	FY2019 HK\$'000	FY2020 HK\$'000	FY2021 HK\$'000	1 January 2022 to the Latest Practicable Date HK\$'000
Short-term employee benefits	18,197	30,373	21,908	22,805
Equity-settled share option expense	8,302	7,358	7,249	4,138
Share based payment expense	—	1,603	3,331	3,223
Pension scheme contributions	214	192	215	222
Total compensation paid to key management personnel	26,713	39,526	32,703	30,388

The related party transactions in respect of Directors' remuneration mentioned above were connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules but were fully exempted from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Please refer to the section entitled "*Management and Corporate Governance – Compensation of Directors and Executive Officers – Directors' Remuneration*" of this Introductory Document for further details of the Directors' remuneration.

MEASURES AND PROCEDURES FOR APPROVING CONNECTED TRANSACTIONS

Our Company will continue to comply with the requirements under the Hong Kong Listing Rules with respect to connected transactions including the applicable disclosure and annual reporting requirements in our Company's annual reports. These include the making of announcements containing the requisite details under Chapter 14A of the Hong Kong Listing Rules, as well as disclosing in each annual report of our Company a summary of the following details in respect of all non-exempted connected transactions conducted in the relevant financial year (including continuing connected transactions under agreements signed in previous years):—

- (1) the transaction date;
- (2) the parties to the transaction and a description of their connected relationship;
- (3) a brief description of the transaction and its purpose;

- (4) the total consideration and terms;
- (5) the nature of the connected person's interest in the transaction; and
- (6) for continuing connected transactions (i.e. connected transactions involving the provision of goods or services or financial assistance which are carried out on a continuing or recurring basis and are expected to extend over a period of time):–
 - (A) a confirmation from our Company's independent non-executive directors that they have reviewed those continuing connected transactions and a separate confirmation whether the transactions have been entered into:–
 - (i) in the ordinary and usual course of business of our Group;
 - (ii) on normal commercial terms or better (i.e. being terms which a party could obtain if the transaction were on an arm's length basis or terms no less favourable to our Group than terms available to or from independent third parties); and
 - (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of our Company's shareholders as a whole.
 - (B) a statement by our Board whether the auditors of our Company have, in turn, confirmed whether anything has come to their attention that causes them to believe that the continuing connected transactions:–
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of our Group if the transactions involve the provision of goods or services by our Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
 - (iv) have exceeded the cap (which is a monetary cap required under the Hong Kong Listing Rules to be set with respect to continuing connected transactions).

FUTURE CONNECTED TRANSACTIONS

We will continue to comply with the relevant requirements under the Hong Kong Listing Rules with respect to connected transactions as summarised above when members of our Group enter into connected transactions in the future.

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND POTENTIAL CONFLICTS OF INTERESTS

During each of FY2019, FY2020 and FY2021, none of the Directors has any interest in business which competes or may compete, directly or indirectly, with the business of our Group, or have or may have any other conflicts of interest with our Group.

TAXATION

The following discussion is limited to a general description of certain tax consequences in the jurisdictions described below with respect to ownership of our Shares, based on laws, regulations, guidelines, rulings and decisions in effect as at the Latest Practicable Date. Such laws, regulations, guidelines, rulings and decisions are subject to change, and any change could be retrospective. Such laws, regulations, guidelines, rulings and decisions are also subject to interpretation and the relevant tax authorities or courts could later disagree with the explanations or conclusions set out herein. The discussion below does not purport to be comprehensive or exhaustive, and does not constitute legal or tax advice.

Prospective investors should consult their own professional advisers regarding the tax consequences of purchasing, owning and disposing of our Shares. Neither our Company, our Directors nor any other person involved in the Introduction accepts responsibility for any tax effects or liabilities resulting from the purchase, ownership or disposition of our Shares.

CAYMAN ISLANDS TAXATION

We are incorporated in the Cayman Islands. The Cayman Islands currently has no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

SINGAPORE TAXATION

Corporate Income Tax

Corporate taxpayers are subject to Singapore income tax on income accruing in or derived from Singapore and foreign-source income received or deemed to be received in Singapore from outside Singapore, unless specifically exempted from tax.

The prevailing corporate income tax rate in Singapore is 17.0%.

With effect from Year of Assessment (“YA”) 2020, the first S\$200,000 of a company’s normal chargeable income is exempt from tax as follows:

- (a) 75.0% of up to the first S\$10,000 of chargeable income; and
- (b) 50.0% of up to the next S\$190,000 of chargeable income.

Notwithstanding the above, for qualifying private companies, 75.0% of the first S\$100,000 of normal chargeable income and 50.0% of the next S\$100,000 of normal chargeable income are exempted from tax, subject to meeting the relevant conditions.

The remaining chargeable income (after deducting the applicable tax exemption on the first S\$200,000 of chargeable income) will be taxed at the prevailing corporate tax rate, currently at 17.0%.

A company is regarded as tax resident in Singapore if the control and management of the company’s business is exercised in Singapore. “Control and management” refers to the making of decisions on strategic matters, such as those on company policy and strategy.

Presently, tax exemption will be granted to a Singapore tax resident corporate taxpayer on its foreign-sourced dividends, foreign branch profits and foreign-sourced service income (“**specified foreign income**”) received or deemed to be received in Singapore, subject to meeting the following qualifying conditions:

- (a) the specified foreign income has been subject to income tax in the foreign jurisdiction from which the income is received;
- (b) at the time the specified foreign income is received in Singapore, the headline tax rate (i.e. highest corporate income tax rate) of the foreign jurisdiction from which the income is received is at least 15.0%; and
- (c) the Comptroller of Income Tax (the “**Comptroller**”) is satisfied that the tax exemption would be beneficial to the Singapore tax resident corporate taxpayer.

Pursuant to a tax concession granted with effect from 30 July 2004, the above foreign-source income exemption has been extended to include specified foreign income which is exempted from income tax in the foreign jurisdiction as a result of a tax incentive granted by that foreign jurisdiction for carrying out substantive business activities in that foreign jurisdiction.

If foreign-source income is subject to tax in Singapore and does not qualify for tax exemption, a Singapore tax resident corporate taxpayer is entitled to claim foreign tax credit (“**FTC**”) for the foreign tax paid on such foreign income, subject to meeting the relevant conditions. The amount of foreign tax credit available to a Singapore tax resident corporate taxpayer is based on the lower of:

- (a) the Singapore tax payable on the particular source of income which qualifies for foreign tax credit; or
- (b) the actual foreign tax suffered on the same income.

Under the FTC pooling system, Singapore tax resident companies may elect to claim FTC on a pooled basis on any items of its foreign-sourced income, rather than the usual source-by-source and country-by-country basis, subject to meeting the relevant conditions as follows:

- (a) income tax must have been paid on the income in the foreign jurisdiction from which the income is derived;
- (b) at the time the foreign-sourced income is received in Singapore, the headline tax rate of that foreign jurisdiction from which the income is received is at least 15.0%;
- (c) there must be Singapore income tax payable on the foreign-sourced income; and
- (d) the taxpayer is entitled to claim foreign tax credits under sections 50, 50A or 50B of the Income Tax Act 1947 of Singapore (the “**SITA**”) on its foreign-sourced income.

The amount of foreign tax credit to be granted under the FTC pooling system is based on the lower of the total Singapore tax attributable to the pooled foreign income (net of expenses) and the pooled foreign taxes paid on those income.

Individual Income Tax

An individual taxpayer (both tax resident and non-tax resident of Singapore) is subject to Singapore income tax on income accruing in or derived from Singapore, subject to certain exceptions. Foreign-sourced income received or deemed received in Singapore by an individual taxpayer is generally exempt from income tax in Singapore, except for such income received through a partnership in Singapore by Singapore tax resident individuals.

An individual is regarded as a tax resident in Singapore in a YA if, in the preceding calendar year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he ordinarily resides in Singapore.

A Singapore tax resident individual is subject to tax at the progressive rates, ranging from 0% to 22.0%, after deductions of qualifying personal reliefs where applicable.

A non-Singapore tax resident individual is generally taxed at the rate of 22.0% except for Singapore-sourced employment income which is taxed at either a flat rate of 15.0% (without deductions for personal relief), or at the progressive rates as a tax resident (with deductions for personal relief), whichever yields a higher tax.

Dividend Distributions

Singapore does not impose withholding tax on dividend payment.

As our Company is incorporated in the Cayman Islands and should not be a tax resident in Singapore, dividends paid by our Company would be considered as foreign-sourced income.

Dividends paid by our Company will be exempt from Singapore income tax when received by an individual investor regardless of whether the individual investor is resident or non-resident of Singapore, except for such income received through a partnership in Singapore by Singapore tax resident individual investors.

Dividends paid by our Company and received in Singapore by a Singapore corporate investor will be subject to Singapore income tax unless an exemption applies to the foreign-sourced dividend income received in Singapore.

Shareholders or investors are advised to consult their own tax advisors in respect of the tax laws of their respective countries of residence which are applicable on such dividends received by them and the applicability of any double taxation agreement.

Bonus shares

Under current Singapore income tax law and practice, a capitalisation of profits followed by the issue of new shares, credited as fully paid, *pro rata* to shareholders ("**bonus issue**") does not represent a distribution of dividends by a company to its shareholders. Therefore, a Singapore resident shareholder receiving shares by way of a bonus issue should not have a liability to Singapore income tax.

When a dividend is to be satisfied wholly or in part in the form of an allotment of ordinary shares credited as fully paid, the dividend declared will be treated as income to its shareholders. Similarly, when shareholders are given the right to elect to receive an allotment of ordinary shares credited as fully paid in lieu of cash, the allotment of ordinary shares will be treated as dividend income to its shareholders.

Capital Gains Tax

Singapore currently does not impose tax on capital gains. Any gains from the disposal of our Shares, if regarded as capital gains, are not taxable in Singapore.

There are no specific laws or regulations which deal with the characterisation of whether a gain is income or capital in nature. Gains from the disposal of our Shares are taxable in Singapore if the seller is regarded as having derived gains of an income nature in Singapore. Gains arising from the disposal of our Shares which are derived from any trade, business, vocation or profession carried on by that person, if accruing in or derived from Singapore, are taxable as such gains are considered revenue in nature. Gains derived from the disposal of our Shares may also be taxable if they constitute any gains or profits of an income nature under section 10(1)(g) of the SITA.

Section 13W of the SITA provides a safe harbour in the form of an exemption of gains or profits arising from the disposal of ordinary shares for disposals made up to 31 December 2027. To qualify for the tax exemption, the divesting company must have legally and beneficially held at least 20.0% of the ordinary shares of the company whose shares are being disposed (“**investee company**”) for a continuous period of at least 24 months immediately prior to the date of disposal of such shares.

The above-mentioned “safe harbour rule” is not applicable under the following scenarios:

- The disposal of shares during the period from 1 June 2012 to 31 May 2022 of an unlisted investee company which is in the business of trading or holding Singapore immovable properties (other than the business of property development).
- The disposal of shares from 1 June 2022 of an unlisted investee company which is in the business of trading, holding or developing immovable properties in Singapore or abroad, subject to certain exceptions.
- The disposal of shares by a divesting company in the insurance business industry (as referred to under section 26 of the SITA).
- The disposal of shares by a partnership, limited partnership or limited liability partnership where one or more of the partners is a company or are companies.

Shareholders who have adopted or are required to adopt Financial Reporting Standard 109 *Financial Instruments* (FRS 109) or Singapore Financial Reporting Standard (International) 9 *Financial Instruments* (“**SFRS(I) 9**”) (as the case may be) for financial reporting purposes may for Singapore income tax purposes, be required to recognise gains or losses (not being gains or losses that are capital in nature) on our Shares, irrespective of whether there is actual disposal. If so, the gains or losses so recognised may be taxed or allowed as a deduction even though they are unrealised.

Shareholders should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their ownership and disposal of our Shares.

Stamp Duty

There is no stamp duty payable on the subscription for, allotment or holding of our Shares.

Under Singapore law, stamp duty is generally payable on the instrument of transfer of our Shares at the rate of 0.2%, computed on the consideration paid for or market value of the ordinary shares, whichever is higher.

The purchaser is liable for stamp duty, unless there is an agreement to the contrary.

No stamp duty is payable if no dutiable document (whether physical or electronic, such as in the case of scripless shares, the transfer of which do not require instruments of transfer to be executed) is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the dutiable document which is executed outside Singapore is subsequently received in Singapore. Electronic instruments that are executed outside Singapore are treated as received in Singapore in any of the following scenarios: (a) it is retrieved or accessed by a person in Singapore; (b) an electronic copy of it is stored on a device (including a computer) and brought into Singapore; or (c) an electronic copy of it is stored on a computer in Singapore.

Stamp duty is not applicable to electronic transfers of our Shares through the scripless trading system operated by CDP.

Estate Duty

Singapore estate duty had been abolished with effect from 15 February 2008.

GST

The sale of our Shares by a GST-registered investor belonging in Singapore through an SGX-ST member to another person belonging in Singapore is an exempt supply, which is not subject to GST. Any input GST incurred by the GST-registered investor in connection with the making of such an exempt supply is generally not recoverable from the Comptroller of GST and will become an additional cost to the investor unless the investor satisfies certain conditions prescribed under the GST legislation or by the Comptroller of GST.

Where our Shares are sold by a GST-registered investor to a person who belongs outside Singapore, and for the direct benefit of either a person belonging outside Singapore (and that person is outside Singapore at the time of supply) or a GST-registered person who belongs in Singapore, the sale is a taxable supply subject to GST at zero-rate (i.e. GST at 0%). Any input GST incurred by the GST-registered investor in the making of such a zero-rated supply, subject to the provisions of the GST legislation, may be recovered from the Comptroller of GST.

Services consisting of arranging, broking, underwriting or advising on the issue, allotment or transfer of ownership of our Shares rendered by a GST-registered person to an investor belonging in Singapore for GST purposes in connection with the investor's purchase, sale or holding of our Shares will be subject to GST at the prevailing standard rate of 7.0%. This rate will be raised from 7.0% to 8.0% with effect from 1 January 2023, and from 8.0% to 9.0% with effect from 1 January 2024. Similar services contractually rendered by a GST-registered person to an investor belonging outside Singapore, and for the direct benefit of either a person belonging outside Singapore (and that person is outside Singapore at the time of supply) or a GST-registered person who belongs in Singapore should generally be subject to GST at zero-rate.

Investors should seek their own tax advice on the recoverability of GST incurred on expenses in connection with the purchase and sale of our Shares.

PRC TAXATION

Generally, our PRC subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%, except for certain of our PRC subsidiaries that are qualified as high and new technology enterprises under the EIT Law and are eligible for a preferential enterprise income tax rate of 15%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

Our products and services are primarily subject to VAT at a rate of 13% on the products and services as well as 6% on services such as research and development services, in each case less any deductible VAT we have already paid or born. We are also subject to surcharges on VAT payments in accordance with PRC laws.

Further, to encourage the local software development in China, the PRC tax authorities provide qualified companies with a refund of a certain percentage of the VAT paid. Some of our PRC subsidiaries qualified to apply for such “VAT rebate”. In general, companies who develop their own software products and have the software products registered with the relevant authorities in the PRC are entitled to a refund of such VAT rebate. If the net amount of the VAT payable exceeds 3% of software sales, the excess portion of the VAT is refundable upon our application to the tax authority. Normally, the VAT rebate will be refunded by the relevant PRC authorities in one (1) month’s time from payment of the VAT.

Dividends paid by our PRC subsidiaries in China to our Hong Kong subsidiaries will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Double Taxation Avoidance Arrangement and receives approval from the relevant tax authority. If our Hong Kong subsidiaries satisfy all the requirements under the tax arrangement and receive approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiaries would be subject to withholding tax at the preferential rate of 5%. Effective from 1 November 2015, the above-mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority.

If we or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%.

Under the EIT Law, and relevant PRC policies, a PRC manufacturing enterprise can enjoy an additional 100% deduction of the qualified research and development expenses from 1 January 2021, and a PRC enterprise recognised as a technology-based small and mid-size enterprise can enjoy an additional 100% deduction of the qualified research and development expenses from 1 January 2022, and other PRC enterprises can enjoy an additional 75% deduction of the qualified research and development expenses from 1 January 2018 to 31 December 2023 and such 75% deduction ratio has been increased to 100% from 1 October 2022 to 31 December 2022. Further, for a PRC manufacturing enterprise of which the qualified research and development expenses have formed intangible assets, the tax amortisation is based on 200% of the costs of the intangible assets from 1 January 2021; for a PRC enterprise recognised as a technology-based small and mid-size enterprise of which the qualified research and development expenses have formed intangible assets, the tax amortisation is based on 200% of the costs of the intangible assets from 1 January 2022; for other PRC enterprises, the tax amortisation is based on 175% of the costs of the intangible assets from 1 January 2018 to 31 December 2023.

HONG KONG TAXATION

Dealings in the Shares registered on our Hong Kong branch register will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong for transfer of Hong Kong stock is 0.13% on the higher of the consideration for and the market value of the Shares, and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.26% is currently payable on a typical sale and purchase transaction involving the Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

There is no withholding tax in Hong Kong on dividend distributions by our Company to the Shareholders.

CLEARANCE AND SETTLEMENT

A letter of eligibility has been obtained from the SGX-ST for the listing and quotation of our Introduction Shares. For the purpose of trading on the SGX-ST, a board lot of our Shares will comprise 100 Shares.

Upon listing and quotation on the SGX-ST, our Shares will be traded on the HKSE and the SGX-ST. The principal register of members will be maintained in the Cayman Islands (the “**Principal Share Register**”). Our Company has established the Hong Kong Share Register (“**Hong Kong Share Register**”), being a branch register of members in Hong Kong which is maintained by Computershare Hong Kong Investor Services Limited whose address is Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. Further, the Company has established a branch register of members in Singapore (the “**Singapore Branch Share Register**”) which is maintained by the Singapore Share Transfer Agent, In.Corp Corporate Services Pte. Ltd. whose address is 30 Cecil Street, #19-08 Prudential Tower, Singapore 049712. The Principal Share Registrar will keep in the Cayman Islands duplicates of the Hong Kong Share Register and the Singapore Branch Share Register, which will be updated from time to time.

CLEARANCE, TRADING AND SETTLEMENT OF SHARES ON THE SGX-ST

Upon listing and quotation of the Shares on the SGX-ST, Shares that are traded on the SGX-ST will be cleared and settled under the book-entry settlement system of CDP, and all dealings in and transactions of the Shares through the SGX-ST will be effected in accordance with the terms and conditions for the operation of Securities Accounts with CDP, and the terms and conditions for CDP to act as depository for foreign securities as amended from time to time.

CDP, a wholly-owned subsidiary of Singapore Exchange Limited, is incorporated under the laws of Singapore and acts as a depository and clearing organisation. CDP holds securities for its accountholders and facilitates the clearance and settlement of securities transactions between accountholders through electronic book-entry changes in the Securities Accounts maintained by such accountholders with CDP. An investor may open a direct account with CDP or a sub-account with any CDP Depository Agent. A CDP Depository Agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

The Shares that are traded on the SGX-ST will be scripless shares registered on the Singapore Branch Share Register in the name of CDP or its nominee and held by CDP for and on behalf of persons who maintain, either directly or through Depository Agents, Securities Accounts with CDP. The law of domicile of our Company, namely, the Cayman Islands, only recognises the registered holders of the Shares as its members. Accordingly, depositors and Depository Agents will not be treated under the Articles of Association and the Cayman Islands Companies Act (as revised) as members of the Company in respect of the number of Shares credited to their respective Securities Accounts and may not be accorded the full rights of membership, such as voting rights, the right to appoint proxies, or the right to receive shareholders’ circulars, proxy forms, annual reports and prospectuses. In such an event, depositors and Depository Agents will be accorded only such rights as CDP may make available to them pursuant to CDP’s terms and conditions to act as depository for foreign securities.

Dealings in the Shares will be carried out on the SGX-ST in Singapore dollars and will be effected for settlement in CDP on a scripless basis. Settlement of trades executed on the SGX-ST will take place on the second Market Day after the trade date. When a seller does not have sufficient Shares in the account for settlement by the start of the final settlement run at 1:30 pm on the second Market Day after the trade day, CDP will conduct buy-in on that afternoon (unless the intended settlement date of the trades executed on the SGX securities market falls on a day with half day trading, buying-in will be conducted only for a day on the next business day). Securities bought in successfully will be used to fulfil the seller’s delivery obligation on the next business day.

Shareholders are responsible for ensuring the Shares are credited into their Securities Account maintained with CDP or securities sub-account with a Depository Agent, as the case may be, in time for the settlement of trades on the SGX-ST, as buying-in may be instituted against the relevant clearing member of the CDP if the Shares are not available in the balance of the Securities Accounts or securities sub-accounts of Shareholders for settlement pursuant to their trades.

CLEARING FEES IN RESPECT OF TRADING ON THE SGX-ST

A clearing fee for the trading of our Shares on the SGX-ST is payable at the rate of 0.0325% of the transaction value. The clearing fees, instruments of transfer deposit fees and share withdrawal fees may be subject to GST at the prevailing rate of 7.0% (or such other rate prevailing from time to time). This rate will be raised from 7.0% to 8.0% with effect from 1 January 2023, and from 8.0% to 9.0% with effect from 1 January 2024.

VOTING INSTRUCTIONS

Investors who subscribe for Shares in the Introduction and those who trade Shares listed on the SGX-ST would hold their Shares through the CDP system. Investors holding Shares through the CDP system may only exercise the voting rights for the deposited Shares through the CDP system and in accordance with the terms and conditions for the operation of Securities Accounts with CDP, and the terms and conditions for CDP to act as depository for foreign securities as amended from time to time.

Under the Cayman Islands law, every other person who has agreed to become a member of a Cayman Islands company and whose name is entered on the register of members of such company is considered a member. Under the Cayman law, the register of members is *prima facie* evidence of any matters by the Cayman Islands Companies Act directed or authorised to be inserted therein. Accordingly, a CDP Depositor holding Shares through CDP would not be recognised as our Shareholder under the laws of the Cayman Islands and does not have the right to attend and vote at the general meetings of our Company.

Our Company, through our Singapore Share Transfer Agent, will send notices of Shareholders' meetings to CDP Depositors by post. In the event that CDP Depositors wish to attend and vote at general meetings of our Company, CDP will have to appoint them as proxies, pursuant to our Articles of Association and the Cayman Islands Companies Act.

Our Company, through our Singapore Share Transfer Agent, will make arrangements with CDP to appoint the relevant CDP Depositors as proxies, in accordance with Article 66(1) of our Articles of Association, so that the appointed CDP Depositors can attend and vote at the general meetings of our Company. At any general meeting, CDP, as a clearing house, may appoint more than one (1) proxy in accordance with Article 66(1) of our Articles of Association. Pursuant to Article 84(2) of our Articles of Association, provided that CDP is a member of the Company, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company provided that, if more than one (1) person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under our Articles of Association shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the CDP.

TRADING AND SETTLEMENT OF SHARES ON THE HKSE

Settlement of transactions between CCASS Participants is required to take place in CCASS on the second Hong Kong business day after the relevant trading day. All activities under CCASS are subject to the CCASS Rules in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

Investors in Hong Kong must settle their trades executed on the HKSE through their brokers directly or through custodians. For an investor in Hong Kong who has deposited his Shares in his designated CCASS Participant's stock account maintained with CCASS, settlement will be effected by CCASS in accordance with the CCASS Rules.

TRANSACTION COSTS OF DEALING IN SHARES LISTED ON THE HKSE

The transaction costs of dealings in our Shares on the HKSE include:

- HKSE trading fee of 0.005% (which will be raised to 0.00565% with effect from 1 January 2023) of the consideration of the transaction, charged to each of the buyer and seller and rounded to the nearest cent;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- Financial Reporting Council (FRC) transaction levy of 0.00015% of the consideration of the transaction, charged to each of the buyer and seller;
- Trading tariff of HK\$0.50 on each and every purchase or sale transaction (which will be removed with effect from 1 January 2023). The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- Transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- Stamp duty at a total rate of 0.26% of the value of the transaction, with 0.13% payable by each of the buyer and the seller;
- Brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for initial public offering transactions, which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities) and the applicable stock settlement fee; and
- Transfer fee, in which the Hong Kong Branch Share Registrar and Transfer Office will charge (at the rate of HK\$2.50 per certificate issued or cancelled) the higher of (i) the number of certificates to be issued; or (ii) the number of certificates to be cancelled, for each transfer of ordinary shares from one registered owner to another, each share certificate cancelled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

MOVEMENT OF SHARES BETWEEN HONG KONG AND SINGAPORE

Through the movement mechanisms discussed below, it is possible for investors to purchase Shares on the SGX-ST and sell them on the HKSE and *vice versa*. All of the linked movements between CDP and CCASS are effected only on a free-of-payment basis (that is, there is no related cash movement parallel to the securities movement, and any related cash transfers may only be effected outside CDP and CCASS directly between the buyer and seller through their own arrangements).

Investors should be aware that while there is no time difference between the Singapore and Hong Kong markets, the HKSE has shorter trading hours than the SGX-ST. The trading hours on the SGX-ST are from 9.00 a.m. to 12.00 p.m. and 1.00 p.m. and 5.00 p.m. on a Market Day, and the trading hours on the HKSE are from 9.30 a.m. to 12.00 p.m. and 1.00 p.m. to 4.00 p.m. on a trading day in Hong Kong.

Transfer of Shares from Hong Kong to Singapore

Shareholders should note that only Shares which are registered on the Singapore Branch Share Register and deposited with CDP are valid for settlement of trades done on the SGX-ST. Therefore, Shareholders who currently hold their Shares on the Hong Kong Share Register and wish to trade on the SGX-ST must effect a removal of the Shares from the Hong Kong Share Register to the Singapore Branch Share Register and must procure the deposit of the Shares with CDP. In this regard, the investor should ensure that (i) he has a Securities Account in his own name with CDP or a securities sub-account with a Depository Agent and (ii) the Shares are credited to his Securities Account or securities sub-account before dealing in the Shares.

Under normal circumstances, the removal and deposit of the Shares generally require 15 business days to complete (excluding posting time, and the time taken to withdraw Shares deposited with CCASS in Step 2 below), and would involve the following procedures:

1. If the investor's Shares are registered in the investor's own name, the investor shall complete a combined removal and transfer form available from the Hong Kong Branch Share Registrar and submit the same together with the same share certificate(s) in his name to the Hong Kong Branch Share Registrar.
2. If the investor's Shares have been deposited with CCASS, the investor must first withdraw the said Shares from his investor participant stock account with CCASS or from the stock account of a CCASS Participant and submit the relevant share transfer form(s) executed by HKSCC Nominees Limited (for re-registration in his own name), the relevant share certificate(s) and a duly completed combined removal and transfer form to the Hong Kong Branch Share Registrar. The investor must also arrange for stamp duty clearance with the Hong Kong Stamp Office.
3. Upon receipt of the combined removal and transfer form, the relevant share certificate(s) and where appropriate, the completed share transfer form(s) executed by HKSCC Nominees Limited, the Hong Kong Branch Share Registrar shall take all actions necessary to effect the removal and the transfer of the Shares from the Hong Kong Share Register to the Singapore Branch Share Register.
4. The Hong Kong Branch Share Registrar shall then notify the Singapore Share Transfer Agent of the removal whereupon the Singapore Share Transfer Agent will update the Singapore Branch Share Register, and will issue share certificate(s) in the name of the investor or CDP, as the case may be, and deliver the share certificate(s) to the investor or CDP. Upon receipt of the relevant documents and prescribed payment from the Singapore Share Transfer Agent, CDP shall credit the specified number of Shares into the investor's securities account or sub-account with a CDP Depository Agent. The investor should ensure that the Shares are credited to his securities account or sub-account with a CDP Depository Agent before dealing in our Shares.

Shareholders requesting removals of Shares from the Hong Kong Share Register to the Singapore Branch Share Register are required to pay the fees and charges set out below and the following must accompany the removal forms:—

- (a) a cheque or bank draft in Hong Kong dollars made payable to **COMPUTERSHARE HONG KONG INVESTOR SERVICES LIMITED** for: (i) the total sum of the removal fees (HK\$25) for the Shares to be removed from the Hong Kong Share Register (the "**Removed Shares**") and HK\$2.50 for each share certificate rendered for cancellation on the Hong Kong Share Register (under Standard Service) or (ii) the total sum of the higher of 0.05% of market value (based on the closing price of our Company's Shares in Hong Kong on the preceding day when Hong Kong Branch Share Registrar receives instructions from the Shareholder) or HK\$20.00 for each share certificate rendered for cancellation on the Hong Kong Share

Register (under Express Service). The availability of the Express Service is subject to the discretion of the Hong Kong Branch Share Registrar and is not available during peak operation seasons of the Hong Kong Branch Share Registrar. Please refer to the combined removal and transfer form for the latest fees and charges; and

- (b) bank drafts in Singapore Dollars (inclusive of Singapore prevailing 7% GST (or such other rate prevailing from time to time)) made payable to:–
 - (i) **THE CENTRAL DEPOSITORY (PTE) LIMITED** for the sum of S\$10.00 (S\$10.70 inclusive of Singapore prevailing 7% GST) as payment for CDP deposit fee or such other amount required by CDP; and
 - (ii) **IN.CORP CORPORATE SERVICES PTE. LTD.** for the sum of S\$32 (S\$34.24 inclusive of Singapore prevailing 7% GST) comprising S\$2 (S\$2.14 inclusive of Singapore prevailing 7% GST) for each share certificate to be issued on the Singapore Branch Share Register and S\$30 (S\$32.10 inclusive of Singapore prevailing 7% GST) for each removal to be effected.

Transfer of Shares from Singapore to Hong Kong

Shareholders should note that for the purposes of trading on the HKSE, the Shares must be registered on the Hong Kong Share Register and deposited into CCASS for credit to the Shareholder's investor participant stock account or his designated CCASS Participant's stock account. A Shareholder who holds his Shares through CDP and wishes to move his Shares from CDP to CCASS must effect a removal of the Shares from the Singapore Branch Share Register to the Hong Kong Share Register, and can do so in the following manner:

1. If the investor's Shares have been deposited with CDP, the investor must first request or instruct his Depository Agent to request on his behalf withdrawal of his Shares from CDP by completing and signing a Request for Withdrawal of Securities Form ("**Withdrawal Form**") available from CDP and submitting the same together with the duly completed transfer form pre-signed by the investor(s) as transferee(s) to CDP.
2. The investor shall complete a share removal form for the removal of Shares from the Singapore Branch Share Register to the Hong Kong Share Register obtained from the Singapore Share Transfer Agent and submit the share removal form to the Singapore Share Transfer Agent.
3. CDP will sign as transferor and send the duly completed transfer form together with share certificate(s) registered under the name of CDP to the Singapore Share Transfer Agent directly.
4. Upon receipt of the duly completed transfer form and share certificate(s) from CDP and the share removal form from the investor, the Singapore Share Transfer Agent shall take all actions necessary to effect the transfer and removal of Shares from the Singapore Branch Share Register.
5. The Singapore Share Transfer Agent shall then notify the Hong Kong Branch Share Registrar of the removal whereupon the Hong Kong Branch Share Registrar shall update the Hong Kong Share Register and issue share certificate(s) in the name of the investor and made such share certificate(s) available for collection by the investor(s) at the Hong Kong Branch Share Registrar's office unless other delivery method is requested upon submission of the share removal form and relevant fees will be separately agreed. Despatch of share certificate(s) will be made at the risk and expense of the investor as specified in the share removal form.

6. If the investor's Shares, upon being registered in the Hong Kong Share Register, are to be deposited with CCASS, the investor must deposit the Shares into CCASS for credit to his investor participant stock account or his designated CCASS Participant's stock account. For deposit of Shares into CCASS or to effect a sale of Shares in Hong Kong, the investor should execute a transfer form which is in use in Hong Kong and which can be obtained from the offices of the Hong Kong Branch Share Registrar and deliver it together with his share certificate(s) issued by the Hong Kong Branch Share Registrar to HKSCC Nominees Limited directly if he intends to deposit the Shares into CCASS for credit to his investor participant stock account or via a CCASS Participant if he wants the Shares to be credited to his designated CCASS Participant's stock account.

Under normal circumstances, Steps 2 to 5 generally require 15 business days (excluding posting time) to complete. The time taken to deposit Shares into CCASS in Step 6 above may vary, depending on whether the investor arranges for the deposit of his Shares into CCASS directly, or via a CCASS Participant, and may take at least one (1) Hong Kong business day or more.

Shareholders requesting removals of Shares from the Singapore Branch Share Register to the Hong Kong Share Register are required to pay the fees and charges set out below and item (a) must accompany the relevant form:—

- (a) bank draft in Singapore Dollars (inclusive of Singapore prevailing 7% Goods and Services Tax (or such other rate prevailing from time to time)) made payable to **IN.CORP CORPORATE SERVICES PTE. LTD.** for the sum of S\$32.10 as payment for transfer request fee; and
- (b) **(this fee is payable upon collection of the share certificate(s) in respect of the Removed Shares in Hong Kong)** a cheque or bank draft in Hong Kong dollars made payable to **COMPUTERSHARE HONG KONG INVESTOR SERVICES LIMITED** for: (i) the total sum of the removal fees (HK\$25) for the Removed Shares and HK\$2.50 for each share certificate issued on the Hong Kong Share Register (under Standard Service) or (ii) the total sum of the higher of 0.05% of market value (based on the closing price of our Company's Shares in Hong Kong on the preceding day when the Hong Kong Share Registrar receives instructions from the Singapore Share Transfer Agent) or HK\$20.00 for each share certificate issued on the Hong Kong Share Register (under Express Service). The exact fee to be paid under Express Service will be calculated and advised by the Hong Kong Branch Share Registrar. The availability of the Express Service is subject to the discretion of the Hong Kong Branch Share Registrar and is not available during peak operation seasons of the Hong Kong Branch Share Registrar. Please refer to the share removal form for the latest fees and charges.

WITHDRAWAL OR DEPOSIT OF SHARES FROM OR INTO CDP

Persons holding Shares in a Securities Account with CDP or securities sub-account with a Depository Agent may withdraw any number of Shares they own and obtain physical share certificates by executing a Withdrawal Form and submitting the same, together with the Transfer Form ("**Transfer Form**") pre-signed by the investor(s) as transferee(s) and the withdrawal fee, to CDP. CDP will then sign as transferor and send the duly completed and signed Transfer Form together with share certificate(s) registered under the name of CDP to the Singapore Share Transfer Agent as agent of the Singapore Branch Share Register. Upon receipt of the above documents, the Singapore Share Transfer Agent will effect the transfer of Shares from CDP to the investor(s) and issue physical Singapore share certificates in the name of the investor. Such share certificates will not, however, be valid for delivery pursuant to trades transacted on the SGX-ST, although they will be *prima facie* evidence of title and may be transferred in accordance with the Articles of Association.

Persons holding physical share certificates in their own names and who wish to trade on the SGX-ST must submit to CDP their physical share certificates together with the Request for Deposit of Securities Form for the Deposition of Shares into CDP along with the duly executed Transfer Form in favour of CDP as transferee, to have their respective Securities Accounts or securities sub-accounts credited with the number of Shares before they can effect any trades.

In the absence of unforeseen circumstances, (i) in the case of a deposit of securities into CDP, CDP will credit the securities 12 Market Days or later after the date of lodgement of share certificate(s) with CDP and upon receipt of confirmation from the Singapore Share Transfer Agent that the securities have been registered in the name of CDP or its nominee (as the case may be), and (ii) in the case of a withdrawal of securities into CDP, CDP will debit the securities and lodge with the Singapore Share Transfer Agent the certificates from the securities withdrawn within six (6) Market Days from the date of receipt of the Withdrawal Form to affect the registration of the securities to the transferee.

GENERAL AND STATUTORY INFORMATION

RESPONSIBILITY STATEMENT

1. The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Introductory Document and confirm after making all reasonable enquiries that to the best of their knowledge and belief, this Introductory Document constitutes full and true disclosure of all material facts about the Introduction, our Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Introductory Document misleading. Where information in this Introductory Document has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Introductory Document in its proper form and context.
2. The Issue Manager, UOB Kay Hian Private Limited, confirms that to the best of its knowledge and belief, this Introductory Document constitutes full and true disclosure of all material facts about the Introduction, our Company and its subsidiaries, and the Issue Manager is not aware of any facts the omission of which would make any statement in this Introductory Document misleading.

MATERIAL BACKGROUND INFORMATION

3. Except as disclosed below, at the date of this Introductory Document, none of our Directors, Executive Officers and Controlling Shareholders has:
 - (a) at any time during the last 10 years, had an application or a petition under any bankruptcy laws of any jurisdiction filed against him or her or against a partnership of which he or she was a partner at the time when he or she was a partner or at any time within two (2) years after the date he or she ceased to be a partner;
 - (b) at any time during the last 10 years, had an application or a petition under any law of any jurisdiction filed against an entity (not being a partnership) of which he or she was a director or an equivalent person or a key executive, at the time when he or she was a director or an equivalent person or a key executive of that entity or at any time within two (2) years after the date he or she ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;
 - (c) any unsatisfied judgement against him or her;
 - (d) ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he or she is aware) for such purpose;
 - (e) ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he or she is aware) for such breach;
 - (f) at any time during the last 10 years, had judgement entered against him or her in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his or her part, nor has he or she been the subject of any civil proceedings (including any pending civil proceedings of which he or she is aware) involving an allegation of fraud, misrepresentation or dishonesty on his or her part;

- (g) ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;
- (h) ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust;
- (i) ever been the subject of any order, judgement or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him or her from engaging in any type of business practice or activity;
- (j) ever, to his or her knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of affairs of:
 - (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere;
 - (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere;
 - (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or
 - (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,
 in connection with any matter occurring or arising during the period when he or she was so concerned with the entity or business trust; or
- (k) been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the MAS or any other regulatory authority, exchange, professional body or governmental agency, whether in Singapore or elsewhere.

Disclosure relating to our Executive Director and Group President, Mr. Xu Huijun

Mr. Xu Huijun was previously employed by ZTE as the executive vice president and Chief Technology Officer and had resigned in July 2018. Based on the website of the US Department of Commerce Bureau of Industry and Security (“BIS”)⁽¹⁾, (a) there were issues concerning ZTE’s compliance with US Export Administration Regulations and US sanctions laws (the “ZTE Incident”); and (b) ZTE and BIS subsequently came to a settlement in June 2018 provided that ZTE complied with certain conditions. Mr. Xu Huijun has confirmed that he was not involved in the ZTE Incident and voluntarily resigned from ZTE in July 2018.

Our Board and Nomination Committee have considered, amongst others, that Mr. Xu Huijun has confirmed that his resignation from ZTE in July 2018 was voluntary and he has not been disqualified from acting as a director or an equivalent person of any entity or from taking part directly or indirectly in the management of any entity.

As such, based on the foregoing, to the best of the knowledge and belief of our Board (save for Mr. Xu Huijun) and Nomination Committee, nothing has come to the attention of the members of our Board and Nomination Committee to cause them to believe that Mr. Xu Huijun does not have the character and integrity expected of a director of a listed issuer pursuant to Listing Rule 210(5)(b).

Note:

- (1) Source: “Superseding Order relating to Zhongxing Telecommunications Equipment Corporation and ZTE Kangxun Telecommunications Ltd.” by the United States Department of Commerce Bureau of Industry and Security Washington, D.C. 2230 dated 8 June 2018, found in <https://www.bis.doc.gov/index.php/documents/regulations-docs/federal-register-notices/federal-register-2018/2235-zte-superseding-order-6-8-18-final/file>. The US Department of Commerce Bureau of Industry and Security has not provided its consent to the inclusion of the information cited to it in this section and is therefore not liable for such information. While our Company and the Issue Manager have taken reasonable actions to ensure that such information has been reproduced in its proper form and context and that such information is extracted accurately and fairly in this Introductory Document, neither our Company, our Directors, the Issue Manager nor any other party has conducted an independent review of such information or verified the accuracy of the contents of such information.

Disclosure Relating on our Independent Non-executive Director, Mr. Lau Siu Ki, Kevin

On 24 October 2019, the SFC issued a notice to require the Market Misconduct Tribunal of Hong Kong (the “**Market Misconduct Tribunal**”) to conduct proceedings and determine (i) whether a breach of disclosure requirement within the meaning of sections 307A and 307B of Part XIVA of the Securities and Futures Ordinance had taken place in relation to the securities of China Medical & Healthcare Group Limited (formerly known as COL Capital Limited) (“**COL**”) (Stock Code: 383) (“**CMHGL**”) listed on the HKSE; and (ii) the identity of any person who was in breach of such disclosure requirement. The SFC had specified, six (6) individuals in such notice, being former and current directors of CMHGL, including our Independent, Non-executive Director, Mr. Lau Siu Ki, Kevin, who was an independent, non-executive director of COL at the relevant time (the “**MMT Proceedings**”).

On 12 May 2021, the Market Misconduct Tribunal ordered the following:

- (i) COL, Mr. Lau Siu Ki, Kevin and the other five (5) former and current directors of COL to pay the SFC’s investigation and legal costs as well as the costs of the MMT Proceedings;
- (ii) pursuant to section 307N(1)(d) of the Securities and Futures Ordinance, which states that “*if the person is a listed corporation or is in breach of the disclosure requirement as a director or chief executive of a listed corporation, an order that the person pay to the Government a regulatory fine not exceeding \$8,000,000*”, that a regulatory fine of HK\$300,000 be paid by Mr. Lau Siu Ki, Kevin, within 28 days of the order; and
- (iii) pursuant to section 307N(1)(i) of the Securities and Futures Ordinance, which states that “*if the person is an officer of a listed corporation, any order that the Tribunal considers necessary to ensure that the officer does not again perpetrate any conduct that constitutes a breach of a disclosure requirement including, but not limited to, an order that the officer undergo a training program approved by the Commission on compliance with this Part, directors’ duties and corporate governance*”, for Mr. Lau Siu Ki, Kevin to undergo a SFC-approved training programme on corporate disclosure regime, directors’ duties and corporate governance, in compliance with Part XIVA of the Securities and Futures Ordinance, within 20 weeks from the date of the order.

Mr. Lau Siu Ki, Kevin had complied with the aforementioned orders and there has been no further notices or directions issued by the SFC in connection with the above matter. He has also resigned from all duties in COL in December 2018.

In connection with the MMT Proceedings, our Board and Nomination Committee have considered the following: (a) Mr. Lau Siu Ki, Kevin had complied with the orders issued by the Market Misconduct Tribunal and there has been no further notices or directions issued by the Securities and Futures Commission of Hong Kong in connection with the above matter, and (b) no disqualification order was made against Mr. Lau Siu Ki, Kevin and the regulatory fine of HK\$300,000 imposed on Mr. Lau Siu Ki, Kevin constituted less than 5% of the maximum potential fine under Section 307N(1)(d) of the SFO of HK\$8,000,000.

As such, based on the foregoing, to the best of the knowledge and belief of our Board and Nomination Committee, nothing has come to the attention of the members of our Board and Nomination Committee (save for Mr. Lau Siu Ki, Kevin) to cause them to believe that Mr. Lau Siu Ki, Kevin does not have the character and integrity expected of a director of a listed issuer pursuant to Listing Rule 210(5)(b).

CHANGES IN THE SHARE CAPITAL OF OUR COMPANY AND PRINCIPAL SUBSIDIARIES

4. Except as disclosed in the section entitled “*Description of Share Capital – History of Share Capital*” of this Introductory Document, there were no changes in the share capital of our Company within the three (3) years immediately preceding the Latest Practicable Date.
5. Except as disclosed “*Description of Share Capital – History of Share Capital*” of this Introductory Document, there were no changes in the share capital of our Principal Subsidiaries within the three (3) years immediately preceding the Latest Practicable Date.

RELATIONSHIP WITH THE ISSUE MANAGER

6. In the reasonable opinion of our Directors, the Issue Manager does not have a material relationship with our Company save as disclosed below:
- (a) The Issue Manager and its affiliates are a full-service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.
 - (b) The Issue Manager and its affiliates have, from time to time, performed and may in the future perform various financial advisory and investment banking services for our Company and our affiliates for which they received or will receive customary fees and expenses.
 - (c) The Issue Manager may, from time to time, be appointed as placement agent and/or underwriter in connection with subsequent equity fundraising exercises that may be conducted by our Group. Such roles, if any, will not be contingent and inter-conditional on UOB Kay Hian Private Limited's appointment as Issue Manager. Details of any such equity fundraising will be included in a separate offering document to be issued in connection with such equity fundraising exercise if and when it is undertaken.
 - (d) In addition, in the ordinary course of their various business activities, the Issue Manager and its affiliates (or any of them) may make, issue or hold a broad array of investments and enter into secondary market transactions or actively trade debt and equity securities (including but not limited to equity derivatives, warrants and other structured instruments) and financial instruments (including bank loans) for their own account and for the account of their customers, and such investment and securities activities may involve securities and/or instruments of our Company, or our affiliates.
 - (e) The Issue Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

MATERIAL CONTRACTS

7. The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two (2) years preceding the date of this Introductory Document and are or may be material:
- (a) the subscription agreement dated 22 December 2020 between Intel Asia Pacific Research and Development Ltd. (英特尔亚太研发有限公司) (as investor) and Comba Network, pursuant to which Comba Network agreed to allot and issue, and the investor agreed to subscribe for 16,586,416 shares, representing 4.5% of Comba Network's then enlarged equity, for a consideration of RMB94,241,000;
 - (b) the capital increase agreement dated 17 June 2021 between Comba Network, Guangdong Utrust Industrial Investment Fund Partnership (Limited Partnership) (广东粤财产业投资基金合伙企业(有限合伙)) and Beijing Mount Morning Venture Capital Fund Partnership (Limited Partnership) (北京晨山创业投资基金合伙企业(有限合伙)) (as investors) and the existing shareholders of Comba Network, pursuant to which Comba Network agreed to allot and issue an aggregate of 19,166,409 shares, representing approximately 4.86% of Comba Network's then enlarged equity, to the investors at a total consideration of RMB130 million; and

- (c) the capital increase agreement dated 22 July 2021 between Comba Network, Shenzhen Fortune Chuanghong Private Equity Investment Company (Limited Partnership) (深圳市达晨创鸿私募股权投资企业(有限合伙)) and Shenzhen Wisdom Chuangying Private Equity Investment Company (Limited Partnership) (深圳市财智创赢私募股权投资企业(有限合伙)) (as investors) and the existing shareholders of Comba Network, pursuant to which Comba Network agreed to allot and issue an aggregate of 7,371,696 shares, representing approximately 1.84% of Comba Network's then enlarged equity, to the investors at a total consideration of RMB50 million.

MISCELLANEOUS

8. There has not been any public take-over offer by a third party in respect of our Shares, or by our Company in respect of the shares of another corporation or the units of a business trust, which has occurred between 1 January 2021 and the Latest Practicable Date.
9. No expert is employed on a contingent basis by our Company or any of our subsidiaries, or has a material interest, whether direct or indirect, in the shares of our Company or our subsidiaries, or has a material economic interest, whether direct or indirect, in our Company, including an interest in the success of the Introduction.
10. Except as disclosed in the sections entitled "*Summary – Future Plans*" and "*Business – Business Strategies and Future Plans – Future Plans*" of this Introductory Document, we are not aware of any event that has occurred since 31 December 2021 and up to the Latest Practicable Date, that may have a material effect on the financial position and results of our Group.
11. Except as disclosed in the sections entitled "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Telecommunications Equipment Industry and Prospects*", "*Business – Seasonality*", "*Business – Competitive Strengths*", and "*Business – Business Strategies and Future Plans*" of this Introductory Document and barring any unforeseen circumstances, we are not aware of any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our net sales or revenues, profitability, liquidity or capital resources since 31 December 2021 (being the date to which our latest audited consolidated financial statements were prepared) and up to the Latest Practicable Date, or that would cause our financial information disclosed in this Introductory Document to be not necessarily indicative of our future operating results or financial condition.
12. Our Group is not subject to audit, inspection or review by regulatory authorities, therefore, there are no such material adverse findings by such regulatory authorities.
13. The details, including the name, address and professional qualifications including membership in a professional body of the auditors of our Company for the Track Record Period are set out in the section entitled "*Corporate Information*" of this Introductory Document.

We currently have no intention of changing our auditors after the Introduction.

CONSENTS

14. UOB Kay Hian Private Limited, as the Issue Manager, has given and has not withdrawn its written consent to the issue of this Introductory Document with the inclusion herein of its name and all references thereto in the form and context in which they are included in this Introductory Document, and to act in such capacity in relation to this Introductory Document.
15. Ernst & Young, as the Independent Auditor, has given and has not withdrawn its written consent to the issue of this Introductory Document with the inclusion herein of its name and all references thereto in its audit reports on the audited consolidated financial statements of our Company as at and for each of the years ended 31 December 2019, 2020 and 2021 and its review report on the unaudited interim consolidated financial statements as at and for the six (6) months ended 30 June 2022, in the form and context in which they are included in this Introductory Document, and to act in such capacity in relation to this Introductory Document. The audit reports by the Independent Auditor on the audited consolidated financial statements of our Company as at and for each of the years ended 31 December 2019, 2020 and 2021 set out in Appendix A to this Introductory Document were not prepared for the purpose of incorporation in this Introductory Document. The review report by the Independent Auditor on the unaudited interim consolidated financial statements as at and for the six (6) months ended 30 June 2022 set out in Appendix B to this Introductory Document was prepared for the purpose of incorporation in this Introductory Document.
16. Beijing Jincheng Tongda & Neal Law Firm, the legal adviser to our Company as to PRC law has given and has not withdrawn its written consent to the issue of this Introductory Document with the inclusion herein of its name and the statements attributed to them in the sections entitled “*Regulations*”, “*Regulations – The PRC – M&A Rules and Overseas Listing*” and “*Management and Corporate Governance – Legal Representatives*” of this Introductory Document, which were prepared as at the date of this Introductory Document for the purpose of incorporation in this Introductory Document in the form and context in which they are included in this Introductory Document.
17. Zhong Lun Law Firm, the legal adviser to the Issue Manager as to PRC law has given and has not withdrawn its written consent to the issue of this Introductory Document with the inclusion herein of its name and the statements attributed to them in the section entitled “*Regulations*” of this Introductory Document, which were prepared as at the date of this Introductory Document for the purpose of incorporation in this Introductory Document in the form and context in which they are included in this Introductory Document.

LEGAL MATTERS

18. Certain legal matters in connection with this Introduction will be passed upon for our Company by WongPartnership LLP with respect to matters of Singapore law, by Beijing Jincheng Tongda & Neal Law firm with respect to matters of PRC law, by Reed Smith Richards Butler LLP with respect to matters of Hong Kong law, and by Travers Thorp Alberga with respect to matters of Cayman Islands law.
19. Each of WongPartnership LLP, Reed Smith Richards Butler LLP and Travers Thorp Alberga does not make or purport to make any statement in this Introductory Document, is not aware of any statement in this Introductory Document which purports to be based on a statement made by it, and makes no representation, express or implied, regarding, and to the extent permitted by law takes no responsibility for, any statement in or omission from this Introductory Document. Save for the statements attributed to Beijing Jincheng Tongda & Neal Law Firm as set out under paragraph 16 above, Beijing Jincheng Tongda & Neal Law Firm does not make or purport to make any statement in this Introductory Document, is not aware of any statement in this Introductory Document which purports to be based on a statement made by it, and makes no representation, express or implied, regarding, and to the extent permitted by law takes no responsibility for, any statement in or omission from this Introductory Document.

DOCUMENTS AVAILABLE FOR INSPECTION

20. Copies of the following documents may be inspected at 44 Kallang Place, Four Star Building, #04-05/06/07/08, Singapore 339172, during normal business hours for a period of six (6) months from the date of this Introductory Document:

- (a) our Memorandum of Association and Articles of Association;
- (b) the material contracts referred to in the section entitled “*General and Statutory Information – Material Contracts*” of this Introductory Document;
- (c) the service agreements entered into with our Directors referred to in the section entitled “*Management and Corporate Governance – Directors and Executive Officers – Service Agreements with Directors*” of this Introductory Document;
- (d) the Independent Auditor’s Report on the Audited Consolidated Financial Statements of our Group as at and for the years ended 31 December 2019, 2020 and 2021 as set out in Appendix A to this Introductory Document;
- (e) the Independent Review Report on the Unaudited Interim Condensed Consolidated Financial Statements as at and for the six (6) months ended 30 June 2022 as set out in Appendix B to this Introductory Document;
- (f) the respective audited financial statements of our Company and each of our subsidiaries as at and for the years ended 31 December 2019, 2020 and 2021; and
- (g) the letters of consent referred to in the section entitled “*General and Statutory Information – Consents*” of this Introductory Document.

**APPENDIX A – INDEPENDENT AUDITOR’S REPORT AND AUDITED
CONSOLIDATED FINANCIAL STATEMENTS OF COMBA TELECOM
SYSTEMS HOLDINGS LIMITED AND ITS SUBSIDIARIES AS AT AND FOR
EACH OF THE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021**

Audited Financial Statements

COMBA TELECOM SYSTEMS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

31 December 2019

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 6
AUDITED FINANCIAL STATEMENTS	
Consolidated statement of profit or loss	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9 - 10
Consolidated statement of changes in equity	11 - 12
Consolidated statement of cash flows	13 - 14
Notes to financial statements	15 - 100



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report

To the shareholders of Comba Telecom Systems Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 100, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Inventories provision</i>	
<p>The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services. Since the technology develops rapidly in the telecommunications industry, the Group's inventories are subject to significant risk of obsolescence and significant management's judgements and estimates were involved in determining the provisions against obsolete and slow-moving inventories. We focused on this area because balances of inventories were significant to the Group (11% of total assets) and inventories provision was made based on subjective estimates and was influenced by assumptions concerning future consumption.</p> <p>The Group's disclosures about accounting judgements and estimates relating to and the recognition of inventories provision are included in notes 3 and 6 to the consolidated financial statements.</p>	<p>We evaluated the sales forecasts prepared by management for the purpose of identifying slow-moving and obsolete inventories by checking, on a sample basis, to the sales orders and agreements, and assessing the estimated sales by taking into account the accuracy of previous estimations, the historic evidence supporting underlying assumptions and current market conditions. We also tested on a sample basis the accuracy of the inventories ageing report. For the net realizable value of obsolete and slow-moving inventories identified, we have checked a sample of recent sales invoices for the value.</p>

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of trade receivables</i>	
<p>Trade receivables comprises 36% of total assets in the statement of financial position.</p> <p>The Group applied a forward-looking expected loss impairment model on impairment of trade receivables. This involves judgement as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money.</p> <p>Due to the significance of trade receivables and the related estimation uncertainty, this is considered a key audit matter.</p> <p>Details of the impairment of trade receivables are disclosed in notes 3 and 20 to the consolidated financial statements.</p>	<p>We evaluated management's assessment on impairment of trade receivables by checking, on a sample basis, the ageing analysis and settlements made subsequent to the year-end date. For long-aged receivables, we have assessed the Group's provision by considering historical payment patterns, available information concerning the creditworthiness of the customers and any correspondence with customers on expected settlement dates which we sample tested the settlements for proper execution of such repayment schedules. For balances where a provision for impairment was recognized, we understood the rationale behind management's judgement, considering historical patterns of trading and settlement, current economic conditions and forward-looking information as well as recent communications with the counterparties.</p>

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Goodwill and intangible assets impairment review</i>	
<p>As at 31 December 2019, the Group recorded goodwill and intangible assets of HK\$253 million and HK\$513 million, respectively, as a result of previous acquisitions. Under HKFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company performs its annual impairment test on each cash-generating unit to assess whether the goodwill might be impaired as at 31 December. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 14 to the consolidated financial statements.</p> <p>The accounting policies, significant accounting judgements and estimates and disclosures for goodwill are included in notes 2.4, 3 and 14 to the consolidated financial statements.</p>	<p>We examined the forecasted cash flows of respective cash generating units which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also focused on the adequacy of the Group's disclosures of goodwill.</p>

Other information included in the Annual Report

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

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

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

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

A stylized, handwritten signature in black ink, which appears to be 'Ernst & Young'.

Certified Public Accountants
Hong Kong
19 March 2020

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	5	5,779,916	5,663,310
Cost of sales		<u>(4,003,732)</u>	<u>(4,204,709)</u>
Gross profit		1,776,184	1,458,601
Other income and gains	5	176,065	170,091
Research and development costs	6	(346,785)	(353,090)
Selling and distribution expenses		(559,599)	(587,040)
Administrative expenses		(573,966)	(621,408)
Other expenses		(237,211)	(144,431)
Finance costs	7	<u>(104,013)</u>	<u>(73,657)</u>
PROFIT/(LOSS) BEFORE TAX	6	130,675	(150,934)
Income tax expense	9	<u>(61,853)</u>	<u>(48,402)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>68,822</u>	<u>(199,336)</u>
Attributable to:			
Owners of the parent		151,749	(171,384)
Non-controlling interests		<u>(82,927)</u>	<u>(27,952)</u>
		<u>68,822</u>	<u>(199,336)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		HK6.18cents	HK(7.07)cents
Diluted		<u>HK6.12cents</u>	<u>HK(7.07)cents</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
PROFIT/(LOSS) FOR THE YEAR	<u>68,822</u>	<u>(199,336)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(67,777)</u>	<u>(248,037)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>(67,777)</u>	<u>(248,037)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(67,777)</u>	<u>(248,037)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>1,045</u>	<u>(447,373)</u>
Attributable to:		
Owners of the parent	92,698	(409,655)
Non-controlling interests	<u>(91,653)</u>	<u>(37,718)</u>
	<u>1,045</u>	<u>(447,373)</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

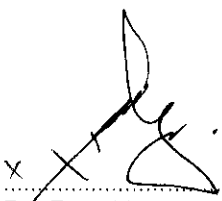
	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,320,293	1,128,259
Right-of-use assets	13(b)	253,261	-
Prepaid land lease payments	13(a)	-	117,889
Goodwill	14	253,077	253,077
Deferred tax assets	15	204,064	102,013
Intangible assets	16	859,853	856,050
Equity investments designated at fair value through other comprehensive income	17	13,423	-
Equity investments designated at fair value through profit or loss	17	28,473	33,540
Restricted bank deposits	22	71,532	77,596
Prepayments	18	-	8,888
Total non-current assets		<u>3,003,976</u>	<u>2,577,312</u>
CURRENT ASSETS			
Inventories	19	1,191,244	1,306,831
Trade receivables	20	3,997,781	4,164,595
Notes receivable	21	156,822	118,950
Prepayments, other receivables and other assets	18	790,901	984,853
Tax recoverable		-	48,330
Restricted bank deposits	22	169,179	207,911
Cash and cash equivalents	22	1,867,186	1,893,859
Total current assets		<u>8,173,113</u>	<u>8,725,329</u>
CURRENT LIABILITIES			
Trade and bills payables	23	4,026,068	4,313,799
Other payables and accruals	24	1,092,456	960,834
Interest-bearing bank borrowings	25	115,086	1,624,499
Tax payable		82,835	-
Provision for product warranties	26	73,764	63,831
Total current liabilities		<u>5,390,209</u>	<u>6,962,963</u>
NET CURRENT ASSETS		<u>2,782,904</u>	<u>1,762,366</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,786,880</u>	<u>4,339,678</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	1,643,039	375,557
Deferred tax liabilities	15	152,415	158,507
Lease liabilities	13(c)	94,409	-
Total non-current liabilities		<u>1,889,863</u>	<u>534,064</u>
Net assets		<u><u>3,897,017</u></u>	<u><u>3,805,614</u></u>

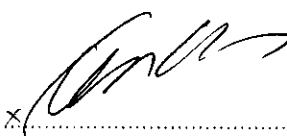
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Net assets		<u>3,897,017</u>	<u>3,805,614</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	248,599	241,948
Treasury shares	27	(22,818)	(22,818)
Reserves	29	<u>3,235,428</u>	<u>3,059,023</u>
		3,461,209	3,278,153
Non-controlling interests		<u>435,808</u>	<u>527,461</u>
Total equity		<u>3,897,017</u>	<u>3,805,614</u>


 X
 Fok Tung Ling
 Director


 X
 Chang Fei Fu
 Director

COMBA TELECOM SYSTEMS HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

Attributable to owners of the parent													
	Issued capital HK\$'000 (note 27)	Treasury shares HK\$'000 (note 27)	Share premium account HK\$'000 (note 27)	Share-based compensation reserve HK\$'000 (note 28)	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve of equity instruments at FVOCI HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2018	246,958	(22,818)	664,031	44,071	45,827	54,146	175,045	273,459	(7,240)	2,269,180	3,742,659	565,179	4,307,838
Loss for the year	-	-	-	-	-	-	-	-	-	(171,384)	(171,384)	(27,952)	(199,336)
Other comprehensive loss for the year:													
Exchange differences related to foreign operations	-	-	-	-	-	-	-	(238,271)	-	-	(238,271)	(9,766)	(248,037)
Total comprehensive loss for the year	-	-	-	-	-	-	-	(238,271)	-	(171,384)	(409,655)	(37,718)	(447,373)
Share option scheme													
- value of services	-	-	-	15,366	-	-	-	-	-	-	15,366	-	15,366
- exercise of share options	65	-	1,101	(315)	-	-	-	-	-	-	851	-	851
- transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	(412)	-	-	-	-	-	412	-	-	-
Repurchase of shares	(5,075)	-	(66,335)	-	(347)	-	-	-	-	-	(71,757)	-	(71,757)
Transfer to/from retained profits	-	-	-	-	-	(7,512)	14,059	-	-	(5,858)	689	-	689
At 31 December 2018	241,948	(22,818)	598,797	58,710	45,480	46,634	189,104	35,188	(7,240)	2,092,350	3,278,153	527,461	3,805,614

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2019

Notes	Attributable to owners of the parent							Fair value reserve of		Non-controlling interests	Total equity
	Issued capital	Treasury shares	Share premium account	Share-based compensation reserve	Capital reserve	Asset revaluation reserve	Statutory reserve	Exchange fluctuation reserve	equity instruments at FVOCI	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(note 27)	(note 27)	(note 27)	(note 27)	(note 28)							
At 1 January 2019	241,948	(22,818)	598,797*	58,710*	45,480*	46,634*	189,104*	35,188*	(7,240)*	2,092,350*	3,278,153
Profit for the year	-	-	-	-	-	-	-	-	-	151,749	151,749
Other comprehensive loss for the year:											
Exchange differences related to foreign operations	-	-	-	-	-	-	-	(59,051)	-	-	(59,051)
Total comprehensive income for the year	-	-	-	-	-	-	-	(59,051)	-	151,749	92,698
Share option scheme											
- value of services	-	-	-	27,622	-	-	-	-	-	-	27,622
- exercise of share options	6,651	-	116,975	(36,098)	-	-	-	-	-	-	87,528
- transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	(803)	-	-	-	-	-	803	-
Interim 2019 dividend	-	-	-	-	-	-	-	-	-	(24,792)	(24,792)
Transfer to/from retained profits	-	-	-	-	-	(3,610)	21,967	-	-	(18,357)	-
At 31 December 2019	248,599	(22,818)	715,772*	49,431*	45,480*	43,024*	211,071*	(23,863)*	(7,240)*	2,201,753*	3,461,209
											435,808
											3,897,017

* These reserve accounts comprise the consolidated reserves of HK\$3,235,428,000 (2018: HK\$3,059,023,000) in the consolidated statement of financial position.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		130,675	(150,934)
Adjustments for:			
Interest income	5	(16,157)	(8,703)
Finance costs	7	104,013	73,657
Depreciation of property, plant and equipment	6	158,075	167,688
Depreciation of right-of-use assets/recognition of prepaid land lease payments	6	42,777	2,803
Amortization of intangible assets	6	86,755	113,603
Equity-settled share option expense	6	27,622	15,366
Gain on partial disposal of an equity investment designated at fair value through profit or loss	5	(1,277)	-
Loss on disposal of intangible assets	6	191	-
Gain on disposal of items of property, plant and equipment	5	(752)	(8,985)
Net gain on equity investments designated at fair value through profit or loss	5	(8,486)	(20,321)
		523,436	184,174
Decrease/(increase) in inventories		93,206	(17,498)
Decrease in trade receivables		100,492	112,150
Increase in notes receivable		(39,909)	(37,958)
Decrease/(increase) in prepayments, other receivables and other assets		173,544	(151,192)
(Decrease)/increase in trade and bills payables		(208,854)	823,265
Increase/(decrease) in other payables and accruals		104,819	(46,758)
Increase/(decrease) in provisions for product warranties		11,180	(2,466)
Cash generated from operations		757,914	863,717
Mainland China profits tax paid		(30,474)	(28,915)
Overseas profits taxes paid		(12,369)	(9,176)
Interest paid on lease liabilities		(5,484)	-
Net cash flows from operating activities		709,587	825,626

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		16,157	8,703
Purchases of items of property, plant and equipment		(397,940)	(250,614)
Additions to intangible assets	16	(96,628)	(138,192)
Proceeds from disposal of items of property, plant and equipment		19,040	24,364
Purchase of equity investments designated at fair value through other comprehensive income/profit or loss		(13,611)	(2,610)
Proceeds from partial disposal of financial assets at fair value through profit or loss		14,318	-
Decrease in restricted bank deposits		39,906	31,070
Net cash flows used in investing activities		<u>(418,758)</u>	<u>(327,279)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		1,458,000	1,669,302
Repayment of bank loans		(1,693,344)	(1,235,385)
Principal portion of lease payments	30(b)	(39,056)	-
Proceeds from exercise of share options	27	87,528	851
Interest and other finance costs paid		(98,529)	(73,657)
Dividends paid		(24,792)	-
Repurchase of shares		-	(71,757)
Net cash flows (used in)/from financing activities		<u>(310,193)</u>	<u>289,354</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(19,364)	787,701
Cash and cash equivalents at beginning of year		1,893,859	1,176,129
Effect of foreign exchange rate changes, net		<u>(7,309)</u>	<u>(69,971)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>1,867,186</u></u>	<u><u>1,893,859</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,612,268	1,893,606
Non-pledged time deposits with original maturity of less than three months when acquired	22	<u>254,918</u>	<u>253</u>
Cash and cash equivalents as stated in the consolidated statement of financial position		<u><u>1,867,186</u></u>	<u><u>1,893,859</u></u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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.

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom Systems Investments Limited	British Virgin Islands	US\$100	100	-	Investment holding
Praises Holdings Limited	British Virgin Islands	US\$100	-	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK\$10,002	-	100	Investment holding and trading of wireless telecommunications network system equipment
Comba Telecom Systems (Guangzhou) Limited 京信通信系統（廣州）有限公司*	PRC/Mainland China	HK\$260,000,000	-	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術（廣州）有限公司*	PRC/Mainland China	HK\$542,000,000	-	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Systems (China) Limited 京信通信系統（中國）有限公司*	PRC/Mainland China	US\$46,665,000	-	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Software Technology (Guangzhou) Limited 京信軟件科技（廣州）有限公司*	PRC/Mainland China	HK\$11,000,000	-	100	Provision of software technology services
Guangzhou TPcom Wireless Ltd. 廣州泰普無線通信設備有限公司*	PRC/Mainland China	RMB1,000,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Cascade Technology Limited	British Virgin Islands	US\$1	-	100	Investment holding
WaveLab Holdings Limited	Cayman Islands	US\$1,000	-	55	Investment holding
WaveLab, Inc.	Commonwealth of Virginia/ United States of America	US\$400,000	-	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated	Commonwealth of Virginia/ United States of America	US\$500,000	-	55	Trading of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US\$1	-	55	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司*	PRC/Mainland China	US\$3,400,000	-	55	Manufacture and sale of digital microwave system equipment
WaveLab Limited 波達有限公司	Hong Kong	HK\$1	-	55	Trading of digital microwave equipment
Comba Telecom Systems International Limited	British Virgin Islands	US\$1	-	100	Investment holding
Comba Telecom Limited	Hong Kong	HK\$2	-	100	Trading of wireless telecommunications network enhancement system equipment and provision of technical support and repairing services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG\$1,000,002	-	100	Provision of marketing services and trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Co., Ltd.	Thailand	THB5,000,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Systems AB	Sweden	SEK100,000	-	100	Provision of marketing services and trading of wireless telecommunications network system equipment
Noblefield International Limited	British Virgin Islands	US\$1	-	100	Investment holding
Comba Telecom Inc.	State of Delaware/United States of America	US\$1	-	100	Research and development and trading of wireless telecommunications network system equipment
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	BRL188,695,129	-	100	Production and assembling and trading of wireless telecommunications network system equipment
Comba Telecom India Private Limited	India	INR500,000	-	100	Trading of wireless telecommunications network system equipment
Comba Telecom Macau Limited 京信通信澳門有限公司	Macau	MOP100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
PT. Comba Telecom	Indonesia	US\$100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom & Sistemas de México, S.A. de C.V.	Mexico	MXN50,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	MXN50,000	-	100	Provision of general and engineering services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom, S.L.U.	Spain	EUR100,000	-	100	Trading of wireless telecommunications network system equipment
Comba Technologies Sdn. Bhd.	Malaysia	RM350,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecomunicaciones del Peru S.A.C.	Peru	PEN100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Jiafu Investments Limited 迦福投資有限公司	British Virgin Islands	US\$100	-	100	Investment holding
Jiafu Holdings Limited 迦福控股有限公司	Hong Kong	HK\$10,000	-	100	Investment holding
ETL Company Limited	Lao People's Democratic Republic	LAK637,763,000,000	-	51	Provision of operator telecommunication services and their value-added services

Note:

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings classified as property, plant and equipment and 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 2019. 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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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 accounting policies adopted in the preparation of the annual consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19, HKAS 28 and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognize and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied as no adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of prepaid land lease payment, property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognizing rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognizes depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and accruals and lease liabilities. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before 1 January 2019.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impact on transition (continued)

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease) HK\$'000
Assets	
Increase in right-of-use assets	215,589
Decrease in prepaid land lease payments	(117,889)
Decrease in prepayments, other receivables and other assets	(2,788)
Increase in total assets	<u>94,912</u>
Liabilities	
Increase in other payables and accruals	23,750
Increase in lease liabilities	71,162
Increase in total liabilities	<u>94,912</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK\$'000
Operating lease commitments as at 31 December 2018	119,926
Weighted average incremental borrowing rate as at 1 January 2019	<u>4.64%</u>
Discounted operating lease commitments as at 1 January 2019	109,347
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 or of low-value assets	<u>(14,435)</u>
Lease liabilities as at 1 January 2019	<u>94,912</u>

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

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 expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. 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 are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

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. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Fair value measurement

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

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

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

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

Impairment of non-financial assets

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Freehold land	Not depreciated
Buildings	4.5%
Plant and machinery	9%-20%
Furniture, fixtures and office equipment	10%-30%
Motor vehicles	18%-20%

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

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

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

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

Computer software and technology

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

Golf club membership

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

Operating license

Operating license is stated at cost less any impairment loss and is amortized on the straight-line basis over its estimated useful lives of 25 years.

Research and development costs

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Buildings	More than 1 to 10 years
Others	More than 1 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in lease liabilities and other payables and accruals.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019)

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

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

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

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

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due, except for certain customers which are granted with a longer credit term. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognized initially at fair value net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank borrowings and lease liabilities.

Subsequent measurement

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

Financial liabilities at amortized cost (loans and borrowings)

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods and related installation

Revenue from the sale of goods and related installation is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods and related installation.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) Operator telecommunication services

Revenue is measured at the transaction price which is the amount of consideration to which the Group entitled in exchange for transferring promised services to the customer. For offerings which included the provision of multiple performance obligations, such as telecommunications services (such as voice and data services), telecommunication related products (such as handsets), customer point rewards and/or other promotional goods/services, the Group allocates the transaction price received/receivable from customers to each performance obligation based on the relative stand-alone selling prices.

Revenue for each performance obligation is then recognized when the Group satisfies the performance obligation by transferring the promised services to a customer. Revenue is recognized when the customer obtains the control of the telecommunications services over the time of provision of the services. Revenue from the sale of telecommunication related products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(c) Technical support and maintenance services

Revenue from the technical support and maintenance services is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

Other income

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

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

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

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

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

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

Dividends

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Recognition of a deferred tax liability for withholding taxes

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was HK\$253,077,000 (2018: HK\$253,077,000). Further details are given in note 14.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates and time value. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories at the end of each reporting period and makes provisions against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use based on sales forecasts. Such sales forecasts are prepared based on agreements or orders on hand and estimated sales in the foreseeable future based on historical experiences with its customers and current market conditions of telecommunications industry. Management estimates the net realizable value for those obsolete and slow-moving inventories based primarily on the latest invoice prices and current market conditions. The estimation is reassessed at the end of each reporting period. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognized in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2019 was HK\$1,191,244,000 (2018: HK\$1,306,831,000). For details, please refer to note 19 to the financial statements. During the year ended 31 December 2019, a write-down of inventories of HK\$121,722,000 (2018: HK\$69,535,000) was recognized in the consolidated statement of profit or loss. For details, please refer to note 6 to the financial statements.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses at 31 December 2019 was HK\$154,866,000 (2018: HK\$27,593,000). The amount of unrecognized tax losses at 31 December 2019 was HK\$305,711,000 (2018: HK\$368,164,000). Further details are contained in note 15 to the financial statements.

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the best estimate of the carrying amount of capitalized development costs was HK\$323,468,000 (2018: HK\$301,586,000). For details, please refer to note 16 to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. 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 profit/(loss) before tax.

Year ended 31 December 2019	Wireless telecommunications network system equipment and services HK\$'000	Operator telecommunication services HK\$'000	Total HK\$'000
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			<u>(885,393)</u>
Total assets			<u>11,177,089</u>
Segment liabilities	7,134,953	1,030,512	8,165,465
Elimination			<u>(885,393)</u>
Total liabilities			<u>7,280,072</u>
Year ended 31 December 2018	Wireless telecommunications network system equipment and services HK\$'000	Operator telecommunication services HK\$'000	Total HK\$'000
Revenue	5,478,358	184,952	5,663,310
Loss before tax	(80,174)	(70,760)	(150,934)
Segment assets	9,985,439	1,577,244	11,562,683
Elimination			<u>(260,042)</u>
Total assets			<u>11,302,641</u>
Segment liabilities	7,344,865	412,204	7,757,069
Elimination			<u>(260,042)</u>
Total liabilities			<u>7,497,027</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 HK\$'000	2018 HK\$'000
Mainland China	4,320,503	3,722,043
Other countries/areas in Asia Pacific	656,860	1,192,201
Americas	493,159	441,583
European Union	200,436	232,705
Middle East	100,061	58,456
Other countries	8,897	16,322
	<u>5,779,916</u>	<u>5,663,310</u>

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

(b) Non-current assets

	2019 HK\$'000	2018 HK\$'000
Mainland China	1,072,745	1,112,091
Lao People's Democratic Republic	1,889,404	1,432,947
Other countries/regions	41,827	32,274
	<u>3,003,976</u>	<u>2,577,312</u>

Information about major customers

Revenue of approximately HK\$1,734,492,000 (2018: HK\$1,682,334,000), HK\$850,561,000 (2018: HK\$520,166,000) and HK\$603,275,000 (2018: HK\$783,323,000) was derived from 3 major customers, which accounted for 30.0% (2018: 29.7%), 14.7% (2018: 9.2%) and 10.5% (2018: 13.8%) of the total revenue of the Group, respectively.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	5,575,561	5,395,836
Maintenance services	48,491	82,522
Provision of operator telecommunication services	155,864	184,952
	<u>5,779,916</u>	<u>5,663,310</u>

Revenue from contracts with customers

	2019 HK\$'000	2018 HK\$'000
Type of customers		
PRC state-owned telecommunication operator groups	3,188,328	2,985,823
Other customers	<u>2,591,588</u>	<u>2,677,487</u>
Total revenue from contracts with customers	<u>5,779,916</u>	<u>5,663,310</u>

	2019 HK\$'000	2018 HK\$'000
Timing of revenue recognition		
Goods transferred at a point in time	5,575,561	5,395,836
Services transferred over time	<u>204,355</u>	<u>267,474</u>
Total revenue from contracts with customers	<u>5,779,916</u>	<u>5,663,310</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

	2019 HK\$'000	2018 HK\$'000
<u>Other income and gains</u>		
Bank interest income	16,157	8,703
Exchange gain, net	14,289	12,752
Government subsidies [#]	84,778	83,759
VAT refunds [*]	21,983	13,893
Gain on disposal of items of property, plant and equipment	752	8,985
Gross rental income	9,073	15,348
Gain on equity investments designated at fair value through profit or loss	8,486	20,321
Gain on partial disposal of an equity investment designated at fair value through profit or loss	1,277	-
Others	19,270	6,330
	<u>176,065</u>	<u>170,091</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 2018 and 2019, 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 16% (13% from April 2019). Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. PROFIT/ (LOSS) BEFORE TAX

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

	Notes	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold and services provided		3,787,652	4,018,740
Depreciation of property, plant and equipment	12	158,075	167,688
Depreciation of right-of-use assets/recognition of prepaid land lease payments	13	42,777	2,803
Amortization of computer software and technology and operating license	16	27,775	28,204
Research and development costs:			
Deferred expenditure amortized*	16	58,980	85,399
Current year expenditure		<u>346,785</u>	<u>353,090</u>
		<u>405,765</u>	<u>438,489</u>
Minimum lease payments under operating leases		-	63,464
Lease payments not included in the measurement of lease liabilities	13	8,247	-
Auditor's remuneration		4,366	3,899
Employee benefit expense (including directors' remuneration, note 8)^:			
Salaries and wages		1,001,422	985,681
Staff welfare expenses		62,318	75,273
Equity-settled share option expense	28(a)	27,622	15,366
Pension scheme contributions (defined contribution schemes)^#		<u>73,441</u>	<u>85,642</u>
		<u>1,164,803</u>	<u>1,161,962</u>
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		(8,486)	(20,321)
Write-down of inventories to net realizable value		121,722	69,535
Impairment of trade receivables and notes receivable	20,21	81,984	22,206
Provision for product warranties	26	28,559	24,402
Impairment of financial assets included in prepayments, other receivables and other assets		37,569	1,565
Gain on disposal of items of property, plant and equipment		(752)	(8,985)
Loss on disposal of intangible assets		<u>191</u>	<u>-</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. PROFIT/ (LOSS) BEFORE TAX (continued)

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

^ Staff costs capitalized into deferred development costs amounting to HK\$68,940,000 (2018: HK\$109,634,000) have not been included in the employee benefit expense.

At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

7. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans	94,645	69,993
Interest on lease liabilities	5,484	-
Finance costs on factored trade receivables	3,884	3,664
	<u>104,013</u>	<u>73,657</u>

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES

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

	2019 HK\$'000	2018 HK\$'000
Fees	<u>740</u>	<u>682</u>
Other emoluments:		
Salaries, allowances and benefits in kind	14,552	12,620
Performance related bonuses	2,905	15,435
Equity-settled share option expense	8,302	2,587
Pension scheme contributions	<u>214</u>	<u>230</u>
	<u>25,973</u>	<u>30,872</u>
	<u>26,713</u>	<u>31,554</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Executive directors and independent non-executive directors

2019	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:						
Mr. Fok Tung Ling	-	2,091	1,015	-	18	3,124
Mr. Zhang Yue Jun	-	1,201	1,048	-	18	2,267
Mr. Xu Huijun	-	3,281	164	2,814	57	6,316
Mr. Chang Fei Fu	-	3,436	-	1,474	18	4,928
Mr. Bu Binlong	-	1,356	515	1,451	75	3,397
Ms. Huo Xinru (appointed on 22 Mar 2019)	-	1,960	-	1,016	15	2,991
	-	13,325	2,742	6,755	201	23,023
Non-executive director:						
Mr. Wu Tielong (re-designed on 31 Dec 2019)	-	1,227	163	1,366	13	2,769
Independent non-executive directors:						
Mr. Lau Siu Ki, Kevin	220	-	-	71	-	291
Dr. Lin Jin Tong	220	-	-	71	-	291
Ms. Ng Yi Kum (appointed on 22 Mar 2019)	171	-	-	38	-	209
Ms. Leung Hoi Wai (appointed on 14 Jun 2019)	120	-	-	-	-	120
Mr. Qian Ting Shuo (resigned on 15 Jan 2019)	9	-	-	1	-	10
	740	-	-	181	-	921
	740	14,552	2,905	8,302	214	26,713
2018	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:						
Mr. Fok Tung Ling	-	2,128	2,641	10	18	4,797
Mr. Zhang Yue Jun	-	1,819	3,516	10	71	5,416
Mr. Xu Huijun (appointed on 23 Aug 2018)	-	1,238	-	441	22	1,701
Mr. Chang Fei Fu (appointed on 23 Feb 2018)	-	2,945	1,069	593	15	4,622
Mr. Bu Binlong (appointed on 12 Apr 2018)	-	1,029	2,767	413	59	4,268
Mr. Wu Tielong (appointed on 12 Apr 2018)	-	860	1,696	304	9	2,869
Mr. Zheng Guo Bao (resigned on 23 Mar 2018)	22	462	-	-	14	498
Mr. Yeung Pui Sang, Simon (resigned on 24 May 2018)	-	1,169	783	249	7	2,208
Mr. Zhang Yuan Jian (resigned on 21 Sep 2018)	-	970	2,963	450	15	4,398
	22	12,620	15,435	2,470	230	30,777
Independent non-executive directors:						
Mr. Lau Siu Ki, Kevin	220	-	-	39	-	259
Dr. Lin Jin Tong	220	-	-	39	-	259
Mr. Qian Ting Shuo (resigned on 15 Jan 2019)	220	-	-	39	-	259
	660	-	-	117	-	777
	682	12,620	15,435	2,587	230	31,554

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

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

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

(b) 5 highest paid employees

The 5 highest paid employees during the year included 5 directors (2018: 5 directors), details of whose remuneration are set out in note 8(a) above.

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2019 HK\$'000	2018 HK\$'000
Current - Charge for the year		
Hong Kong	-	2,000
Mainland China	157,063	15,702
Elsewhere	25,989	18,217
Current - overprovision in prior year	(9,899)	(167)
Deferred	<u>(111,300)</u>	<u>12,650</u>
Total tax charge for the year	<u>61,853</u>	<u>48,402</u>

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

Comba Telecom Technology (Guangzhou) Limited, Comba Telecom Systems (China) Limited and Comba Software Technology (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the year ended 31 December 2019 based on the designation as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology which remained effective for the year ended 31 December 2019.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

9. INCOME TAX (continued)

	2019 HK\$'000	% ¹	2018 HK\$'000	% ¹
Profit/(loss) before tax	<u>130,675</u>		<u>(150,934)</u>	
Tax at the applicable tax rate	30,033	(22.98)	2,414	(1.60)
Effect on opening deferred tax of increase in rate	-	-	(1,158)	0.77
Adjustments in respect of current tax of previous years	(9,899)	7.57	(1,348)	0.89
Income not subject to tax	(193)	0.15	(7,994)	5.30
Expenses not deductible for tax	25,498	(19.51)	38,209	(25.32)
Additional deductible research and development expenses	(40,926)	31.32	(49,448)	32.76
Tax losses utilized from previous years	(9,431)	7.22	-	-
Tax losses not recognized	<u>66,771</u>	<u>(51.10)</u>	<u>67,727</u>	<u>(44.87)</u>
Tax charge at the Group's effective rate	<u>61,853</u>	<u>(47.33)</u>	<u>48,402</u>	<u>(32.07)</u>

The Group has tax losses arising in Hong Kong and other jurisdictions of HK\$305,711,000 (2018: HK\$368,164,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognized deferred tax assets at 31 December 2019.

10. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Interim – HK1 cent (2018: Nil) per ordinary share	24,792	-
Proposed final – HK1.2 cents (2018: Nil) per ordinary share	<u>29,832</u>	<u>-</u>
	<u>54,624</u>	<u>-</u>

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,456,884,000 (2018: 2,423,261,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit/(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 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.

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

	2019 HK\$'000	2018 HK\$'000
<u>Earnings/(loss)</u>		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	<u>151,749</u>	<u>(171,384)</u>
	Number of shares	
	2019	2018
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculations	2,456,884,000	2,423,261,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>23,767,000</u>	<u>-</u>
	<u>2,480,651,000</u>	<u>2,423,261,000</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2019						
At 31 December 2018 and 1 January 2019:						
Cost or valuation	667,949	2,426,079	305,200	64,152	194,477	3,657,857
Accumulated depreciation	(196,706)	(2,021,742)	(260,735)	(50,415)	-	(2,529,598)
Net carrying amount	<u>471,243</u>	<u>404,337</u>	<u>44,465</u>	<u>13,737</u>	<u>194,477</u>	<u>1,128,259</u>
At 1 January 2019, net of accumulated depreciation	471,243	404,337	44,465	13,737	194,477	1,128,259
Additions	56,651	45,040	12,396	800	291,941	406,828
Disposals	(3,577)	(9,675)	(4,248)	(788)	-	(18,288)
Depreciation provided during the year	(34,400)	(104,650)	(14,382)	(4,643)	-	(158,075)
Transfer	-	467,345	-	-	(467,345)	-
Exchange realignment	(9,217)	(9,057)	(718)	(366)	(19,073)	(38,431)
At 31 December 2019, net of accumulated depreciation	<u>480,700</u>	<u>793,340</u>	<u>37,513</u>	<u>8,740</u>	<u>-</u>	<u>1,320,293</u>
At 31 December 2019:						
Cost or valuation	702,021	2,788,421	269,300	59,645	-	3,819,387
Accumulated depreciation	(221,321)	(1,995,081)	(231,787)	(50,905)	-	(2,499,094)
Net carrying amount	<u>480,700</u>	<u>793,340</u>	<u>37,513</u>	<u>8,740</u>	<u>-</u>	<u>1,320,293</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2018						
At 31 December 2017 and 1 January 2018:						
Cost or valuation	693,521	2,494,170	321,897	65,019	-	3,574,607
Accumulated depreciation	(175,358)	(1,982,765)	(259,579)	(50,028)	-	(2,467,730)
Net carrying amount	518,163	511,405	62,318	14,991	-	1,106,877
At 1 January 2018, net of accumulated depreciation	518,163	511,405	62,318	14,991	-	1,106,877
Additions	7,023	27,303	8,751	4,172	194,477	241,726
Disposals	(3,319)	(9,932)	(1,657)	(471)	-	(15,379)
Depreciation provided during the year	(33,247)	(107,204)	(22,498)	(4,739)	-	(167,688)
Exchange realignment	(17,377)	(17,235)	(2,449)	(216)	-	(37,277)
At 31 December 2018, net of accumulated depreciation	471,243	404,337	44,465	13,737	194,477	1,128,259
At 31 December 2018:						
Cost or valuation	667,949	2,426,079	305,200	64,152	194,477	3,657,857
Accumulated depreciation	(196,706)	(2,021,742)	(260,735)	(50,415)	-	(2,529,598)
Net carrying amount	471,243	404,337	44,465	13,737	194,477	1,128,259

For the year ended 31 December 2019, no revaluation of buildings was performed as there were no significant movements in the fair value of the buildings.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of prepaid land lease payment, buildings, and other equipment. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 and 10 years, while other equipment generally has lease terms between 1 and 10 years.

(a) Prepaid land lease payments (before 1 January 2019)

	HK\$'000
Carrying amount at 1 January 2018	129,867
Recognized in profit or loss during the year	(2,803)
Exchange realignment	(6,386)
Carrying amount at 31 December 2018	120,678
Current portion included in prepayments, other receivables and other assets	(2,789)
Non-current portion	117,889

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments HK\$'000	Buildings HK\$'000	Others HK\$'000	Total HK\$'000
As at 1 January 2019	120,678	93,341	1,570	215,589
Additions	-	82,052	5,050	87,102
Depreciation charge	(2,759)	(38,920)	(1,098)	(42,777)
Exchange realignment	(1,943)	(4,592)	(118)	(6,653)
As at 31 December 2019	115,976	131,881	5,404	253,261

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

13. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under lease liabilities and other payables and accruals) and the movements during the year are as follows:

	Lease liabilities HK\$'000
Carrying amount at 1 January 2019	94,912
New leases	83,603
Accretion of interest recognized during the year	5,484
Payments	(44,540)
Exchange realignment	(1,792)
	<u>137,667</u>
Carrying amount at 31 December 2019	<u>137,667</u>
Analyzed into:	
Current portion	43,258
Non-current portion	<u>94,409</u>

(d) The amounts recognized in profit or loss in relation to leases are as follows:

	2019 HK\$'000
Interest on lease liabilities	5,484
Depreciation charge of right-of-use assets	42,777
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 or of low-value assets	8,247
Total amount recognized in profit or loss	<u>56,508</u>

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 30(b) to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

13. LEASES (continued)

The Group as a lessor

The Group leases certain of its properties under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognized by the Group during the year was HK\$9,073,000 (2018: HK\$15,348,000), details of which are included in note 5 to the financial statements.

As at 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 year	7,433	3,867
After 1 year but within 2 years	6,455	2,849
After 2 years but within 3 years	3,122	2,515
After 3 years but within 4 years	2,719	2,169
After 4 years but within 5 years	1,999	1,881
After 5 years	3,559	5,518
	<u>25,287</u>	<u>18,799</u>

14. GOODWILL

	2019 HK\$'000	2018 HK\$'000
Cost and net carrying amount	<u>253,077</u>	<u>253,077</u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Wireless telecommunications equipment CGU; and
- Provision of operator telecommunication services and their value added services CGU.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

14. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least a 5-year period approved by management. The discount rate applied to the cash flow projections is approximately from 15% to 19% (2018: 15% to 19%), and cash flows beyond the 5-year period were extrapolated using a growth rate of 2.0% to 3.0% (2018: 2.0% to 3.0%), which was represented by expected long term CPI growth rate.

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

15. DEFERRED TAX

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

Deferred tax assets

	Unrealized profit HK\$'000	Accruals HK\$'000	Products warranty HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 January 2018	31,113	47,856	15,458	29,111	123,538
Deferred tax (charged)/credited to the statement of profit or loss during the year	(2,467)	(17,206)	3,914	-	(15,759)
Exchange realignment	(1,486)	(1,798)	(964)	(1,518)	(5,766)
At 31 December 2018	27,160	28,852	18,408	27,593	102,013
Deferred tax (charged)/credited to the statement of profit or loss during the year	(11,397)	(15,669)	2,774	129,527	105,235
Exchange realignment	(298)	(279)	(353)	(2,254)	(3,184)
At 31 December 2019	15,465	12,904	20,829	154,866	204,064

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. DEFERRED TAX (continued)

Deferred tax liabilities

	Revaluation of properties HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Fair value adjustments for equity investments designated at fair value HK\$'000	Total HK\$'000
At 1 January 2018	9,509	152,959	-	162,468
Deferred tax changed/(credited) to the statement of profit or loss during the year	(632)	(7,557)	5,080	(3,109)
Deferred tax credited to equity statement during the year	(689)	-	(163)	(852)
At 31 December 2018	8,188	145,402	4,917	158,507
Deferred tax charged/(credited) to the statement of profit or loss during the year	(632)	(7,554)	2,121	(6,065)
Deferred tax credited to equity statement during the year	-	-	(27)	(27)
At 31 December 2019	7,556	137,848	7,011	152,415

At 31 December 2019, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately HK\$2,085,877,000 at 31 December 2019 (2018: HK\$2,252,429,000).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

16. INTANGIBLE ASSETS

	Operating license HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
31 December 2019					
Cost at 1 January 2019, net of accumulated amortization	536,494	16,856	1,114	301,586	856,050
Additions	-	10,223	-	86,405	96,628
Disposals	-	(191)	-	-	(191)
Amortization provided during the year	(23,322)	(4,453)	-	(58,980)	(86,755)
Exchange realignment	-	(336)	-	(5,543)	(5,879)
At 31 December 2019, net of accumulated amortization	<u>513,172</u>	<u>22,099</u>	<u>1,114</u>	<u>323,468</u>	<u>859,853</u>
At 31 December 2019:					
Cost	569,533	45,590	1,114	788,157	1,404,394
Accumulated amortization	<u>(56,361)</u>	<u>(23,491)</u>	<u>-</u>	<u>(464,689)</u>	<u>(544,541)</u>
Net carrying amount	<u>513,172</u>	<u>22,099</u>	<u>1,114</u>	<u>323,468</u>	<u>859,853</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

16. INTANGIBLE ASSETS (continued)

	Operating license HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
31 December 2018					
Cost at 1 January 2018, net of accumulated amortization	559,816	21,749	1,114	265,739	848,418
Additions	-	992	-	137,200	138,192
Amortization provided during the year	(23,322)	(4,882)	-	(85,399)	(113,603)
Exchange realignment	-	(1,003)	-	(15,954)	(16,957)
At 31 December 2018, net of accumulated amortization	<u>536,494</u>	<u>16,856</u>	<u>1,114</u>	<u>301,586</u>	<u>856,050</u>
At 31 December 2018: Cost	569,533	41,474	1,114	701,753	1,313,874
Accumulated amortization	<u>(33,039)</u>	<u>(24,618)</u>	<u>-</u>	<u>(400,167)</u>	<u>(457,824)</u>
Net carrying amount	<u>536,494</u>	<u>16,856</u>	<u>1,114</u>	<u>301,586</u>	<u>856,050</u>

17. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / PROFIT OR LOSS

	2019 HK\$'000	2018 HK\$'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
合肥长河芯动通讯技术有限公司	11,186	-
深圳市汇芯通信技术有限公司	<u>2,237</u>	<u>-</u>
	<u>13,423</u>	<u>-</u>
Equity investments designated at fair value through profit or loss		
Unlisted equity investments, at fair value		
北京奕斯伟信息技术有限公司	25,527	31,036
通号粤港澳（广州）交通科技有限公司	<u>2,946</u>	<u>2,504</u>
	<u>28,473</u>	<u>33,540</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Prepayments	-	8,888
Current assets		
Prepayments	349,934	556,144
Deposits	150,380	179,379
Other receivables	321,334	257,242
	821,648	992,765
Impairment allowance	(30,747)	(7,912)
	<u>790,901</u>	<u>984,853</u>

Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers. As at 31 December 2019, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2019 was 0.10% to 10.00% and 100% for stage 1 and stage 3 respectively (2018: 0.10% to 10.00% for stage 1).

19. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	231,927	250,696
Project materials	53,282	66,959
Work in progress	45,882	52,188
Finished goods	559,704	506,048
Inventories on site	300,449	430,940
	<u>1,191,244</u>	<u>1,306,831</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

20. TRADE RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	4,467,343	4,601,190
Impairment	<u>(469,562)</u>	<u>(436,595)</u>
	<u>3,997,781</u>	<u>4,164,595</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:

	2019 HK\$'000	2018 HK\$'000
Within 3 months	1,655,053	1,759,833
4 to 6 months	463,194	437,993
7 to 12 months	585,223	550,142
More than 1 year	<u>1,763,873</u>	<u>1,853,222</u>
	4,467,343	4,601,190
Provision for impairment	<u>(469,562)</u>	<u>(436,595)</u>
	<u>3,997,781</u>	<u>4,164,595</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

20. TRADE RECEIVABLES (continued)

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

	2019 HK\$'000	2018 HK\$'000
At beginning of year	436,595	431,366
Impairment losses	78,803	22,206
Amount written off as uncollectible	(40,103)	(10,708)
Exchange realignment	(5,733)	(6,269)
	<u>469,562</u>	<u>436,595</u>
At end of year		

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on groupings of various customer segments with similar loss patterns (i.e., geography, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019		Past due			Total
	Current	Less than 1 year	1-2 years	Over 2 years	
Expected credit loss rate	1.51%	2.24%	14.78%	51.00%	
Gross carrying amount (HK\$'000)	2,738,974	709,106	297,023	722,240	4,467,343
Expected credit losses (HK\$'000)	41,458	15,849	43,895	368,360	469,562
As at 31 December 2018		Past due			Total
	Current	Less than 1 year	1-2 years	Over 2 years	
Expected credit loss rate	0.27%	0.78%	3.16%	46.09%	
Gross carrying amount (HK\$'000)	2,747,968	745,451	203,280	904,491	4,601,190
Expected credit losses (HK\$'000)	7,504	5,792	6,421	416,878	436,595

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

21. NOTES RECEIVABLE

	2019 HK\$'000	2018 HK\$'000
Notes receivable	160,003	118,950
Impairment	(3,181)	-
	<u>156,822</u>	<u>118,950</u>

At 31 December 2018 and 2019, none of the notes receivable were endorsed.

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

22. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	1,612,268	1,893,606
Time deposits	<u>495,629</u>	<u>285,760</u>
	2,107,897	2,179,366
Less:		
Restricted bank deposits for bills payable	(11,240)	(51,820)
Restricted bank deposits for performance bonds	<u>(229,471)</u>	<u>(233,687)</u>
Cash and cash equivalents	<u>1,867,186</u>	<u>1,893,859</u>

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$1,291,860,000 (2018: HK\$1,318,824,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

23. 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:

	2019 HK\$'000	2018 HK\$'000
Within 3 months	2,251,938	2,180,906
4 to 6 months	704,646	865,447
7 to 12 months	503,754	571,499
More than 1 year	565,730	695,947
	<u>4,026,068</u>	<u>4,313,799</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.

24. OTHER PAYABLES AND ACCRUALS

	2019 HK\$'000	2018 HK\$'000
Accruals	153,794	154,076
Contract liabilities	111,556	127,370
Other payables	827,106	679,388
	<u>1,092,456</u>	<u>960,834</u>

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

25. INTEREST-BEARING BANK BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Analyzed into:		
Within 1 year or on demand	115,086	1,624,499
In the 2nd year	885,986	11,381
In the 3rd to 5th years, inclusive	645,198	136,566
Beyond 5 years	111,855	227,610
	<u>1,758,125</u>	<u>2,000,056</u>

As at 31 December 2019, loans denominated in Hong Kong dollars, RMB, and EURO amounted to HK\$1,389,000,000 (2018: HK\$1,410,400,000), HK\$369,125,000 (2018: HK\$589,560,000) and Nil (2018: HK\$96,000), respectively.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

25. INTEREST-BEARING BANK BORROWINGS (continued)

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

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 2019 bear interest at rates ranging from 3.5% to 5.5% (2018: from 1.1% to 5.4%) per annum.

26. PROVISION FOR PRODUCT WARRANTIES

	2019 HK\$'000	2018 HK\$'000
At 1 January	63,831	69,838
Additional provision	28,559	24,402
Amounts utilized during the year	(17,379)	(26,868)
Exchange realignment	(1,247)	(3,541)
At 31 December	<u>73,764</u>	<u>63,831</u>

The Group generally provides warranties of 1 to 2 years to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for product warranties were not discounted as the effect of discounting was not material.

27. SHARE CAPITAL

<u>Shares</u>	2019 HK\$'000	2018 HK\$'000
Authorized:		
5,000,000,000 (2018: 5,000,000,000) ordinary shares of HK\$0.10 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid or credited as fully paid:		
2,485,988,818 (2018: 2,419,474,860) ordinary shares of HK\$0.10 each	<u>248,599</u>	<u>241,948</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

27. SHARE CAPITAL (continued)

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

	Notes	Number of shares in issue	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2018		2,469,580,860	246,958	(22,818)	664,031	888,171
Share option scheme - exercise of share options	(a)	646,000	65	-	1,101	1,166
Cancellation of repurchased shares	(b)	<u>(50,752,000)</u>	<u>(5,075)</u>	<u>-</u>	<u>(66,335)</u>	<u>(71,410)</u>
At 31 December 2018 and 1 January 2019		2,419,474,860	241,948	(22,818)	598,797	817,927
Share option scheme - exercise of share options	(c)	<u>66,513,958</u>	<u>6,651</u>	<u>-</u>	<u>116,975</u>	<u>123,626</u>
At 31 December 2019		<u>2,485,988,818</u>	<u>248,599</u>	<u>(22,818)</u>	<u>715,772</u>	<u>941,553</u>

As at 31 December 2019, the total number of issued ordinary shares of the Company was 2,485,988,818 (2018: 2,419,474,860) shares which included 16,637,136 (2018: 16,637,136) shares held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (note 28(b)).

Notes:

- (a) During the year ended 31 December 2018, the subscription rights attaching to 404,000 share options and 242,000 share options were exercised at the adjusted exercise prices of HK\$1.354 per share and HK\$1.255 per share respectively, resulting in the issue of 646,000 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$851,000.
- (b) During the year ended 31 December 2018, the Company repurchased a total of 50,752,000 shares on the Stock Exchange for an aggregate amount of approximately HK\$71,410,000 before expenses ranging from HK\$1.140 to HK\$1.530 per share. The repurchased shares were subsequently cancelled.
- (c) During the year ended 31 December 2019, the subscription rights attaching to 43,600,308 share options, 19,823,650 share options and 3,090,000 share options were exercised at the adjusted exercise prices of HK\$1.354 per share, HK\$1.255 per share and HK\$1.170 per share respectively, resulting in the issue of 66,513,958 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$87,528,000.

31 December 2019

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share Option Scheme

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

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme, the Share Award Scheme (note 28(b)) and any other incentive or share option schemes of the Company shall not exceed 30% of the shares of the Company in issue at any time. The maximum number of shares already issued and to be issued upon exercise of share options granted to each eligible person under the 2013 Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding share options) in any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Share Option Scheme (continued)

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

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

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

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

	2019		2018	
	Weighted average exercise price of each share option HK\$	Number of share options	Weighted average exercise price of each share option HK\$	Number of share options
At 1 January	1.258	169,213,454	1.294	119,585,162
Exercised during the year	1.316	(66,513,958)	1.317	(646,000)
Forfeited during the year	1.243	(6,415,918)	1.290	(4,725,708)
Expired during the year	1.354	(1,369,728)	-	-
Granted during the year	1.890	80,000,000	1.182	55,000,000
At 31 December	1.525	174,913,850	1.258	169,213,454

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Share Option Scheme (continued)

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

Name or category of participant	At 1 January 2019	Number of share options				Forfeited during the year	At 31 December 2019	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share
		Granted during the year	Exercised during the year	Expired during the year						
Executive directors										
Mr. Fok Tung Ling	805,253	-	(805,253)	-	-	-	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
Mr. Zhang Yue Jun	805,253	-	(805,253)	-	-	-	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
Mr. Xu Huijun	5,000,000	-	-	-	-	-	5,000,000	28 Aug 18	28 Aug 19 - 27 Aug 23	1,300
	-	10,000,000	-	-	-	-	10,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	5,000,000	10,000,000	-	-	-	-	15,000,000			
Mr. Chang Fei Fu	3,300,000	-	-	-	-	-	3,300,000	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255
	2,000,000	-	-	-	-	-	2,000,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	-	5,000,000	-	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	5,300,000	5,000,000	-	-	-	-	10,300,000			
Mr. Bu Binlong	1,288,408	-	(1,288,408)	-	-	-	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
	3,300,000	-	-	-	-	-	3,300,000	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255
	1,800,000	-	-	-	-	-	1,800,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	-	5,000,000	-	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	6,388,408	5,000,000	(1,288,408)	-	-	-	10,100,000			

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Share Option Scheme (continued)

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

Name or category of participant	At 1 January 2019	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share
		Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2019			
Executive directors									
Ms. Huo Xinru (appointed on 22 Mar 2019)	1,050,000	-	-	-	-	1,050,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	-	5,000,000	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	<u>1,050,000</u>	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,050,000</u>			
Non-executive director									
Mr. Wu Tielong (re-designed on 31 Dec 2019)	644,204	-	(644,000)	(204)	-	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
	1,650,000	-	-	-	-	1,650,000	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255
	1,800,000	-	-	-	-	1,800,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	-	5,000,000	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	<u>4,094,204</u>	<u>5,000,000</u>	<u>(644,000)</u>	<u>(204)</u>	<u>-</u>	<u>8,450,000</u>			

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Share Option Scheme (continued)

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

Name or category of participant	At 1 January 2019	Granted during the year	Number of share options				Forfeited during the year	At 31 December 2019	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share
			Exercised during the year	Expired during the year							
Independent non-executive directors											
Mr. Lau Siu Ki, Kevin	161,049	-	(161,049)	-	-	-	-	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
	110,000	-	-	-	-	-	-	110,000	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255
	200,000	-	-	-	-	-	-	200,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	-	200,000	-	-	-	-	-	200,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	<u>471,049</u>	<u>200,000</u>	<u>(161,049)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>510,000</u>			
Dr. Lin Jin Tong	161,049	-	(161,049)	-	-	-	-	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
	110,000	-	(55,000)	-	-	-	-	55,000	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255
	200,000	-	-	-	-	-	-	200,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	-	200,000	-	-	-	-	-	200,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	<u>471,049</u>	<u>200,000</u>	<u>(216,049)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>455,000</u>			
Ms. Ng Yi Kum (appointed on 22 Mar 2019)	-	200,000	-	-	-	-	-	200,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
Ms. Leung Hoi Wai (appointed on 14 Jun 2019)	-	-	-	-	-	-	-	-			
Mr. Qian Ting Shuo (resigned on 15 Jan 2019)	161,049	-	(161,049)	-	-	-	-	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
	110,000	-	-	-	-	-	-	110,000	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255
	200,000	-	-	-	-	-	-	200,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	<u>471,049</u>	<u>-</u>	<u>(161,049)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,000</u>			

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Share Option Scheme (continued)

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

Name or category of participant	At 1 January 2019	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share
		Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2019			
Other employees in aggregate	41,508,939	-	(39,574,247)	(1,369,524)	(565,168)	-	11 Apr 14	11 Apr 15 - 10 Apr 19	1,354
	60,098,250	-	(19,768,650)	-	(3,049,750)	37,279,850	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255
	42,750,000	-	(3,090,000)	-	(2,651,000)	37,009,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170
	-	49,400,000	-	-	(150,000)	49,250,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890
	144,357,189	49,400,000	(62,432,897)	(1,369,524)	(6,415,918)	123,538,850			
	169,213,454	80,000,000	(66,513,958)	(1,369,728)	(6,415,918)	174,913,850			

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Share Option Scheme (continued)

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

80,000,000 share options were granted on 8 April 2019 with an exercise price of HK\$1.890 under the 2013 Scheme during the current year. The closing price of the Company's shares immediately before the date on which the options were granted was HK\$1.880.

The fair value of the share options granted during the current year was approximately HK\$49,007,000 (HK\$0.61 each), of which the Group recognized a share option expense of approximately HK\$17,329,000 during the current year.

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

Dividend yield (%)	-
Expected volatility (%)	46.00
Risk-free interest rate (%)	2.05
Expected life of the share options (years)	1.35-1.40
Weighted average share price (HK\$ per share)	1.890

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

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

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

31 December 2019			
Number of share options	Exercise price of share options HK\$		Exercise period
45,804,850	1.255	26 August 2017 to 25 August 2021	
44,259,000	1.170	10 April 2019 to 9 April 2023	
5,000,000	1.300	28 August 2019 to 27 August 2023	
79,850,000	1.890	8 April 2020 to 7 April 2024	
<u>174,913,850</u>			

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) Share Option Scheme (continued)

31 December 2018			
Number of	Exercise price of		Exercise period
share options	share options		
	HK\$		
45,535,204	1.354		11 April 2015 to 10 April 2019
68,678,250	1.255		26 August 2017 to 25 August 2021
50,000,000	1.170		10 April 2019 to 9 April 2023
5,000,000	1.300		28 August 2019 to 27 August 2023
<u>169,213,454</u>			

The expense recognized in the consolidated statement of profit or loss for employee services received during the year was approximately HK\$27,622,000 (2018: HK\$15,366,000).

At the end of the reporting period, the Company had 174,913,850 share options outstanding under the 2013 Scheme, of which 39,650,850 were vested and 135,263,000 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 174,913,850 additional ordinary shares of the Company and additional share capital of HK\$17,491,000 and share premium of HK\$249,194,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 161,134,500 share options outstanding under the 2013 Scheme, which represented approximately 6.45% of the Company's shares in issue as at that date.

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 28 May 2018, the Company may further grant 246,516,486 share options (being 10% of the total number of issued shares of the Company as at 28 May 2018). Since 5,000,000 share options and 80,000,000 share options were granted on 28 August 2018 and 8 April 2019 respectively, the total number of unissued share options under the scheme limit became 161,516,486, representing approximately 6.50% of the Company's shares in issue as at 31 December 2019.

(b) Share Award Scheme

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(b) Share Award Scheme (continued)

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

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

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

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(b) Share Award Scheme (continued)

Movements in the number of treasury shares held for the Share Award Scheme for the years ended 31 December 2018 and 2019 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	<u>16,637,136</u>

No Awarded Shares held for Selected Persons were outstanding as at 31 December 2019.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages [74 and 75] of the annual report.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities were as follows:

2019	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 31 December 2018	2,000,056	-
Effect of adoption of HKFRS 16	-	94,912
At 1 January 2019 (restated)	2,000,056	94,912
Changes from financing cash flows	(235,344)	(39,056)
New leases	-	83,603
Foreign exchange movement	(6,587)	(1,792)
Interest expense	-	5,484
Interest paid classified as operating cash flows	-	(5,484)
At 31 December 2019	1,758,125	137,667
2018		Interest-bearing bank borrowings HK\$'000
At 1 January 2018		1,582,380
Changes from financing cash flows		433,917
Foreign exchange movement		(16,241)
At 31 December 2018		2,000,056

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 HK\$'000
Within operating activities	13,731
Within financing activities	39,056
	<u>52,787</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Major non-cash transactions

During the year, there were non-cash transactions amounting to approximately HK\$129,527,000 among the movement of income tax payable and deferred tax assets as a result of the adjusted treatments of income tax filings of certain PRC subsidiaries.

31. CONTINGENT LIABILITIES

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

	2019 HK\$'000	2018 HK\$'000
Guarantees given to banks in respect of performance bonds*	<u>442,892</u>	<u>289,341</u>

* Part of performance bonds are secured by the pledge of certain of the Group's time deposits amounting to HK\$229,471,000 (2018: HK\$233,687,000).

32. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
Contracted, but not provided for: Plant and machinery	<u>16,210</u>	<u>22,632</u>

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office premises, warehouses, motor vehicles and staff dormitories under operating lease arrangements. Leases for these properties were negotiated for terms ranging from 1 to 9 years.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

32. COMMITMENTS (continued)

(b) Operating lease commitments as at 31 December 2018 (continued)

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$'000
Within 1 year	40,115
In the 2nd to 5th years, inclusive	54,861
After 5 years	<u>24,950</u>
	<u>119,926</u>

33. RELATED PARTY TRANSACTIONS

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

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

	2019 HK\$'000	2018 HK\$'000
Short-term employee benefits	18,197	28,737
Equity-settled share option expense	8,302	2,587
Pension scheme contributions	<u>214</u>	<u>230</u>
Total compensation paid to key management personnel	<u>26,713</u>	<u>31,554</u>

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Equity investments at fair value through other comprehensive income	-	-	13,423	13,423
Equity investments at fair value through profit or loss	-	28,473	-	28,473
Trade receivables	3,997,781	-	-	3,997,781
Notes receivable	156,822	-	-	156,822
Financial assets included in prepayments, other receivables and other assets	471,714	-	-	471,714
Restricted bank deposits	240,711	-	-	240,711
Cash and cash equivalents	1,867,186	-	-	1,867,186
	<u>6,734,214</u>	<u>28,473</u>	<u>13,423</u>	<u>6,776,110</u>

Financial liabilities

	Financial liabilities at amortized cost HK\$'000	Total HK\$'000
Trade and bills payables	4,026,068	4,026,068
Financial liabilities included in other payables and accruals	870,828	870,828
Interest-bearing bank borrowings	1,758,125	1,758,125
Lease liabilities	94,409	94,409
	<u>6,749,430</u>	<u>6,749,430</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2018

Financial assets

	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Total HK\$'000
Equity investments at fair value through profit or loss	-	33,540	33,540
Trade receivables	4,164,595	-	4,164,595
Notes receivable	118,950	-	118,950
Financial assets included in prepayments, other receivables and other assets	436,621	-	436,621
Restricted bank deposits	285,507	-	285,507
Cash and cash equivalents	1,893,859	-	1,893,859
	<u>6,899,532</u>	<u>33,540</u>	<u>6,933,072</u>

Financial liabilities

	Financial liabilities at amortized cost HK\$'000	Total HK\$'000
Trade and bills payables	4,313,799	4,313,799
Financial liabilities included in other payables and accruals	721,529	721,529
Interest-bearing bank borrowings	2,000,056	2,000,056
	<u>7,035,384</u>	<u>7,035,384</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The fair values of the non-current portion of restricted bank deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair values as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2019 were assessed to be insignificant.

As at 31 December 2018 and 2019, the carrying amount of the Group's financial assets and financial liabilities approximate to their fair values.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK\$'000	Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	-	-	13,423	13,423
Equity investments designated at fair value through profit or loss	-	-	28,473	28,473
	<u>-</u>	<u>-</u>	<u>41,896</u>	<u>41,896</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

Assets measured at fair value: (continued)

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK\$'000	Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Equity investments at fair value through profit or loss	-	33,540	-	33,540

As at 31 December 2019, the Group transfers its financial assets at fair value through profit or loss of HK\$33,540,000 from Level 2 to Level 3 fair value hierarchy. As at 31 December 2019, the fair value of the unlisted equity investments at fair value through other comprehensive income / profit or loss was based on a market-based valuation technique. As at 31 December 2018, the fair value was based on transaction price.

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 2019.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2019			
Hong Kong dollars	50	(6,426)	-
RMB	50	(1,790)	-
Hong Kong dollars	(50)	6,426	-
RMB	(50)	1,790	-
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2018			
Hong Kong dollars	50	-	-
RMB	50	(1,878)	-
Hong Kong dollars	(50)	-	-
RMB	(50)	1,878	-

* Excluding retained profits

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 9.6% (2018: 15.2%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 93.6% (2018: 92.6%) of costs were denominated in the units' functional currencies.

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

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2019			
If Hong Kong dollar weakens against US\$	5	144,570	-
If Hong Kong dollar strengthens against US\$	(5)	(144,570)	-
If Brazil real weakens against US\$	5	(13,984)	-
If Brazil real strengthens against US\$	(5)	13,984	-
If RMB weakens against US\$	5	17,346	-
If RMB strengthens against US\$	(5)	(17,346)	-
If Hong Kong dollar weakens against AED	5	7,259	-
If Hong Kong dollar strengthens against AED	(5)	(7,259)	-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2018			
If Hong Kong dollar weakens against US\$	5	44,510	-
If Hong Kong dollar strengthens against US\$	(5)	(44,510)	-
If Brazil real weakens against US\$	5	(14,738)	-
If Brazil real strengthens against US\$	(5)	14,738	-
If RMB weakens against US\$	5	21,460	-
If RMB strengthens against US\$	(5)	(21,460)	-
If Hong Kong dollar weakens against AED	5	2,241	-
If Hong Kong dollar strengthens against AED	(5)	(2,241)	-

* Excluding retained profits

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	-	-	-	3,997,781	3,997,781
Notes receivable	-	-	-	156,822	156,822
Financial assets included in prepayments, other receivables and other assets	442,741	-	28,973	-	471,714
Restricted bank deposits	240,711	-	-	-	240,711
Cash and cash equivalents	<u>1,867,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,867,186</u>
	<u>2,550,638</u>	<u>-</u>	<u>28,973</u>	<u>4,154,603</u>	<u>6,734,214</u>

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	-	-	-	4,164,595	4,164,595
Notes receivable	-	-	-	118,950	118,950
Financial assets included in prepayments, other receivables and other assets	436,621	-	-	-	436,621
Restricted bank deposits	285,507	-	-	-	285,507
Cash and cash equivalents	<u>1,893,859</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,893,859</u>
	<u>2,615,987</u>	<u>-</u>	<u>-</u>	<u>4,283,545</u>	<u>6,899,532</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group has certain concentrations of credit risk as 36% (2018: 35%) and 80% (2018: 74%) of the Group's trade receivables were due from the Group's largest customer and the 5 largest customers, respectively.

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

Liquidity risk

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

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

	On demand HK\$'000	Within 1 year HK\$'000	2019 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	31,469	177,443	1,639,791	113,924	1,962,627
Trade and bills payables	-	4,026,068	-	-	4,026,068
Financial liabilities included in other payables and accruals	-	870,828	-	-	870,828
Lease liabilities	-	-	95,126	12,810	107,936
	<u>31,469</u>	<u>5,074,339</u>	<u>1,734,917</u>	<u>126,734</u>	<u>6,967,459</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand HK\$'000	Within 1 year HK\$'000	2018 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	1,212,496	446,030	224,332	239,884	2,122,742
Trade and bills payables	-	4,313,799	-	-	4,313,799
Financial liabilities included in other payables and accruals	-	721,529	-	-	721,529
	<u>1,212,496</u>	<u>5,481,358</u>	<u>224,332</u>	<u>239,884</u>	<u>7,158,070</u>

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2019.

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

	2019 HK\$'000	2018 HK\$'000
Interest-bearing bank borrowings	<u>1,758,125</u>	<u>2,000,056</u>
Total assets	<u>11,177,089</u>	<u>11,302,641</u>
Gearing ratio	<u>15.7%</u>	<u>17.7%</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. EVENTS AFTER THE REPORTING PERIOD

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

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSET		
Investments in subsidiaries	<u>820,961</u>	<u>734,921</u>
CURRENT ASSETS		
Other receivables	290	290
Due from subsidiaries	1,213,840	1,146,840
Cash and cash equivalents	8,309	3,144
Total current assets	<u>1,222,439</u>	<u>1,150,274</u>
CURRENT LIABILITIES		
Due to a subsidiary	480,579	539,606
Other payables and accruals	82,059	75,974
Total current liabilities	<u>562,638</u>	<u>615,580</u>
NET CURRENT ASSETS	<u>659,801</u>	<u>534,694</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,480,762</u>	<u>1,269,615</u>
NON-CURRENT LIABILITY		
Financial guarantee contracts	<u>82,812</u>	<u>24,393</u>
Net assets	<u>1,397,950</u>	<u>1,245,222</u>
EQUITY		
Issued capital	248,599	241,948
Treasury shares	(22,818)	(22,818)
Reserves (note)	1,172,169	1,026,092
Total equity	<u>1,397,950</u>	<u>1,245,222</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Note:

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

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Share-based compensation reserve** HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 December 2017	664,031	373,108	44,071	762	(877)	1,081,095
Loss and total comprehensive loss for the year	-	-	-	-	(4,473)	(4,473)
Share option scheme						
- value of services	-	-	15,366	-	-	15,366
- exercise of share options	1,101	-	(315)	-	-	786
-transfer of share option reserve upon the forfeiture or expiry of share options	-	-	(412)	-	412	-
Repurchase of shares	(66,335)	-	-	(347)	-	(66,682)
At 31 December 2018 and 1 January 2019	598,797	373,108	58,710	415	(4,938)	1,026,092
Profit and total comprehensive income for the year	-	-	-	-	62,370	62,370
Share option scheme						
- value of services	-	-	27,622	-	-	27,622
- exercise of share options	116,975	-	(36,098)	-	-	80,877
-transfer of share option reserve upon the forfeiture or expiry of share options	-	-	(803)	-	803	-
Interim 2019 dividend	-	-	-	-	(24,792)	(24,792)
At 31 December 2019	715,772	373,108	49,431	415	33,443	1,172,169

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

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 19 March 2020.

Audited Financial Statements

COMBA TELECOM SYSTEMS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

31 December 2020

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 6
AUDITED FINANCIAL STATEMENTS	
Consolidated statement of profit or loss	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9 - 10
Consolidated statement of changes in equity	11 - 12
Consolidated statement of cash flows	13 - 15
Notes to financial statements	16 - 114



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report

To the shareholders of Comba Telecom Systems Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 114, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Inventories provision</i>	
<p>The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services. Since the technology develops rapidly in the telecommunications industry, the Group's inventories are subject to significant risk of obsolescence and significant management's judgements and estimates were involved in determining the provisions against obsolete and slow-moving inventories. We focused on this area because balances of inventories were significant to the Group (11% of total assets) and inventories provision was made based on subjective estimates and was influenced by assumptions concerning future consumption.</p> <p>The Group's disclosures about accounting judgements and estimates relating to and the recognition of inventories provision are included in notes 3 and 6 to the consolidated financial statements.</p>	<p>We evaluated the sales forecasts prepared by management for the purpose of identifying slow-moving and obsolete inventories by checking, on a sample basis, to the sales orders and agreements, and assessing the estimated sales by taking into account the accuracy of previous estimations, the historical evidence supporting underlying assumptions and current market conditions. We also tested, on a sample basis, the accuracy of the inventories ageing report. For the net realizable value of obsolete and slow-moving inventories identified, we have checked a sample of recent sales invoices for the value.</p>



Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of trade receivables</i>	
<p>Trade receivables comprises 36% of total assets in the consolidated statement of financial position.</p> <p>The Group applied a forward-looking expected loss impairment model on impairment of trade receivables. This involves judgement as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money.</p> <p>Due to the significance of trade receivables and the related estimation uncertainty, this is considered a key audit matter.</p> <p>Details of the impairment of trade receivables are disclosed in notes 3 and 21 to the consolidated financial statements.</p>	<p>We evaluated management's assessment on impairment of trade receivables by checking, on a sample basis, the ageing analysis and settlements made subsequent to the year-end date. For long-aged receivables, we have assessed the Group's provision by considering historical payment patterns, available information concerning the creditworthiness of the customers and any correspondence with customers on expected settlement dates which we sample tested the settlements for proper execution of such repayment schedules. For balances where a provision for impairment was recognized, we understood the rationale behind management's judgement, considering historical patterns of trading and settlement, current economic conditions and forward-looking information as well as recent communications with the counterparties.</p>

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Goodwill and intangible assets impairment review</i>	
<p>As at 31 December 2020, the Group recorded goodwill and intangible assets of HK\$253 million and HK\$490 million, respectively, as a result of previous acquisitions. Under HKFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company performs its annual impairment test on each cash-generating unit to assess whether the goodwill might be impaired as at 31 December. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 14 to the consolidated financial statements.</p> <p>The accounting policies, significant accounting judgements and estimates and disclosures for goodwill are included in notes 2.4, 3 and 14 to the consolidated financial statements.</p>	<p>We examined the forecasted cash flows of respective cash generating units which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also focused on the adequacy of the Group's disclosures of goodwill.</p>

Other information included in the Annual Report

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

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

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

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.



Certified Public Accountants
Hong Kong
25 March 2021

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
REVENUE	5	5,057,240	5,779,916
Cost of sales		<u>(3,612,059)</u>	<u>(4,003,732)</u>
Gross profit		1,445,181	1,776,184
Other income and gains	5	183,442	176,065
Research and development expenses	6	(471,055)	(346,785)
Selling and distribution expenses		(542,321)	(559,599)
Administrative expenses		(571,519)	(573,966)
Other expenses		(243,540)	(237,211)
Finance costs	7	(69,352)	(104,013)
Share of profit of a joint venture		<u>1,052</u>	<u>-</u>
(LOSS)/PROFIT BEFORE TAX	6	(268,112)	130,675
Income tax expense	9	<u>(23,011)</u>	<u>(61,853)</u>
(LOSS)/PROFIT FOR THE YEAR		<u>(291,123)</u>	<u>68,822</u>
Attributable to:			
Owners of the parent		(194,104)	151,749
Non-controlling interests		<u>(97,019)</u>	<u>(82,927)</u>
		<u>(291,123)</u>	<u>68,822</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		HK(7.36)cents	HK6.18cents
Diluted		<u>HK(7.36)cents</u>	<u>HK6.12cents</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
(LOSS)/PROFIT FOR THE YEAR	<u>(291,123)</u>	<u>68,822</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
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>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>136,415</u>	<u>(67,777)</u>
TOTAL COMPREHENSIVE (LOSS) /INCOME FOR THE YEAR	<u>(154,708)</u>	<u>1,045</u>
Attributable to:		
Owners of the parent	(67,651)	92,698
Non-controlling interests	<u>(87,057)</u>	<u>(91,653)</u>
	<u>(154,708)</u>	<u>1,045</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

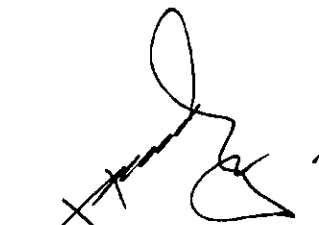
CONSOLIDATED STATEMENT OF FINANCIAL POSITION


31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,357,251	1,320,293
Right-of-use assets	13(a)	283,745	253,261
Goodwill	14	253,077	253,077
Deferred tax assets	15	213,276	204,064
Intangible assets	16	881,565	859,853
Equity investments designated at fair value through other comprehensive income	18	38,563	13,423
Equity investments designated at fair value through profit or loss	18	30,851	28,473
Restricted bank deposits	23	26,366	71,532
Investment in a joint venture	17	11,856	-
Total non-current assets		<u>3,096,550</u>	<u>3,003,976</u>
CURRENT ASSETS			
Inventories	20	1,275,812	1,191,244
Trade receivables	21	4,130,899	3,997,781
Notes receivable	22	134,132	156,822
Prepayments, other receivables and other assets	19	835,805	790,901
Financial assets at fair value through profit or loss	18	1,475	-
Restricted bank deposits	23	133,702	169,179
Cash and cash equivalents	23	1,716,786	1,867,186
Total current assets		<u>8,228,611</u>	<u>8,173,113</u>
CURRENT LIABILITIES			
Trade and bills payables	24	4,030,825	4,026,068
Other payables and accruals	25	844,867	1,092,456
Interest-bearing bank borrowings	26	972,173	115,086
Tax payable		78,648	82,835
Provision for product warranties	27	74,313	73,764
Total current liabilities		<u>6,000,826</u>	<u>5,390,209</u>
NET CURRENT ASSETS		<u>2,227,785</u>	<u>2,782,904</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,324,335</u>	<u>5,786,880</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	410,300	1,643,039
Deferred tax liabilities	15	148,501	152,415
Lease liabilities	13(b)	103,592	94,409
Redeemable preferred shares in a subsidiary	28	111,908	-
Total non-current liabilities		<u>774,301</u>	<u>1,889,863</u>
Net assets		<u>4,550,034</u>	<u>3,897,017</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	275,060	248,599
Treasury shares	29	(22,818)	(22,818)
Reserves	31	3,854,671	3,235,428
		4,106,913	3,461,209
Non-controlling interests		<u>443,121</u>	<u>435,808</u>
Total equity		<u>4,550,034</u>	<u>3,897,017</u>


.....
Fok Tung Ling
Director


.....
Chang Fei Fu
Director

COMBA TELECOM SYSTEMS HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

Attributable to owners of the parent														
		Issued capital HK\$'000 (note 29)	Treasury shares HK\$'000 (note 29)	Share premium account HK\$'000 (note 29)	Share-based compensation reserve HK\$'000 (note 30)	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve of equity instruments at FVOCI HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2019		241,948	(22,818)	598,797	58,710	45,480	46,634	189,104	35,188	(7,240)	2,092,350	3,278,153	527,461	3,805,614
Profit for the year		-	-	-	-	-	-	-	-	-	151,749	151,749	(82,927)	68,822
Other comprehensive loss for the year:														
Exchange differences related to foreign operations		-	-	-	-	-	-	-	(59,051)	-	-	(59,051)	(8,726)	(67,777)
Total comprehensive income for the year		-	-	-	-	-	-	-	(59,051)	-	151,749	92,698	(91,653)	1,045
Share option scheme														
- value of services	30(a)	-	-	-	27,622	-	-	-	-	-	-	27,622	-	27,622
- exercise of share options	29(b)	6,651	-	116,975	(36,098)	-	-	-	-	-	-	87,528	-	87,528
-transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	(803)	-	-	-	-	-	803	-	-	-
Interim 2019 dividend		-	-	-	-	-	-	-	-	-	(24,792)	(24,792)	-	(24,792)
Transfer to/from retained profits		-	-	-	-	-	(3,610)	21,967	-	-	(18,357)	-	-	-
At 31 December 2019		248,599	(22,818)	715,772	49,431	45,480	43,024	211,071	(23,863)	(7,240)	2,201,753	3,461,209	435,808	3,897,017

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2020

	Notes	Attributable to owners of the parent							Fair value reserve of equity instruments at FVOCI		Retained profits	Total	Non-controlling interests	Total equity
		Issued capital	Treasury shares	Share premium account	Share-based compensation reserve	Capital reserve	Asset revaluation reserve	Statutory reserve	Exchange fluctuation reserve	equity instruments at FVOCI	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020		248,599	(22,818)	715,772*	49,431*	45,480 *	43,024*	211,071*	(23,863) *	(7,240) *	2,201,753*	3,461,209	435,808	3,897,017
Loss for the year		-	-	-	-	-	-	-	-	-	(194,104)	(194,104)	(97,019)	(291,123)
Other comprehensive income for the year:														
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	-	-	17,265	-	17,265	-	17,265
Exchange differences related to foreign operations		-	-	-	-	-	-	-	109,188	-	-	109,188	9,962	119,150
Total comprehensive loss for the year		-	-	-	-	-	-	-	109,188	17,265	(194,104)	(67,651)	(87,057)	(154,708)
Share option scheme														
- value of services	30(a)	-	-	-	23,020	-	-	-	-	-	-	23,020	-	23,020
- exercise of share options	29(b)	3,461	-	58,017	(15,546)	-	-	-	-	-	-	45,932	-	45,932
- transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	233	-	-	-	-	-	(233)	-	-	-
Share award scheme														
- value of services	30(c)	-	-	-	9,619	-	-	-	-	-	-	9,619	-	9,619
Final 2019 dividend		-	-	-	-	-	-	-	-	-	(32,895)	(32,895)	-	(32,895)
Interim 2020 dividend		-	-	-	-	-	-	-	-	-	(19,224)	(19,224)	-	(19,224)
Capital contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	94,370	94,370
Issue of shares	29(c)	23,000	-	663,235	-	-	-	-	-	-	-	686,235	-	686,235
Transfer to/from retained profits		-	-	-	-	-	(7,400)	-	-	-	8,068	668	-	668
At 31 December 2020		275,060	(22,818)	1,437,024*	66,757*	45,480*	35,624*	211,071*	85,325*	10,025*	1,963,365*	4,106,913	443,121	4,550,034

* These reserve accounts comprise the consolidated reserves of HK\$3,854,671,000 (2019: HK\$3,235,428,000) in the consolidated statement of financial position.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(268,112)	130,675
Adjustments for:			
Interest income	5	(20,134)	(16,157)
Finance costs	7	69,352	104,013
Share of profit of a joint venture	17	(1,052)	-
Depreciation of property, plant and equipment	6	203,821	158,075
Depreciation of right-of-use assets	6	38,853	42,777
Amortization of intangible assets		91,304	86,755
Equity-settled share option expense	6	23,020	27,622
Gain on partial disposal of an equity investment designated at fair value through profit or loss	5	-	(1,277)
Loss on disposal of intangible assets		-	191
Gain on disposal of items of property, plant and equipment	5	(5,300)	(752)
Awarded share expense	6	9,619	-
Loss on fair value change of financial assets at fair value through profit or loss	6	3,847	-
Net gain on equity investments designated at fair value through profit or loss	5	(590)	(8,486)
		<u>144,628</u>	<u>523,436</u>
(Increase)/decrease in inventories		(11,180)	93,206
Decrease in trade receivables		113,169	100,492
Decrease/(increase) in notes receivable		32,351	(39,909)
Decrease in prepayments, other receivables and other assets		919	173,544
Decrease in trade and bills payables		(243,273)	(208,854)
(Decrease)/increase in other payables and accruals		(325,664)	104,819
(Decrease)/increase in provision for product warranties		<u>(3,783)</u>	<u>11,180</u>
Cash (used in)/generated from operations		(292,833)	757,914
Mainland China profits tax paid		(22,165)	(30,474)
Overseas profits tax paid		(15,972)	(12,369)
Interest paid on lease liabilities	32(b)	<u>(3,542)</u>	<u>(5,484)</u>
Net cash flows (used in)/from operating activities		<u>(334,512)</u>	<u>709,587</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		20,134	16,157
Purchases of items of property, plant and equipment		(265,641)	(397,940)
Additions to intangible assets		(90,739)	(96,628)
Proceeds from disposal of items of property, plant and equipment		33,830	19,040
Purchase of a shareholding in a joint venture		(10,804)	-
Purchase of financial assets at fair value through profit or loss		(5,321)	-
Purchase of equity investments designated at fair value through other comprehensive income/profit or loss		-	(13,611)
Proceeds from partial disposal of financial assets at fair value through profit or loss		-	14,318
Proceeds from disposal of intangible assets		7	-
Decrease in restricted bank deposits		95,472	39,906
Net cash flows used in investing activities		(223,062)	(418,758)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		97,373	1,458,000
Repayment of bank loans		(495,765)	(1,693,344)
Principal portion of lease payments	32(b)	(36,763)	(39,056)
Proceeds from exercise of share options	29	45,932	87,528
Interest and other finance costs paid		(65,810)	(98,529)
Dividend paid		(52,119)	(24,792)
Contribution from the non-controlling shareholders		94,370	-
Proceeds from issue of shares	29(c)	701,500	-
Share issue expenses	29(c)	(15,265)	-
Issued redeemable preferred shares in a subsidiary	28	111,908	-
Net cash flows from/(used in) financing activities		385,361	(310,193)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(172,213)	(19,364)
Cash and cash equivalents at beginning of year		1,867,186	1,893,859
Effect of foreign exchange rate changes, net		21,813	(7,309)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,716,786	1,867,186

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	1,651,670	1,612,268
Non-pledged time deposits with original maturity of less than three months when acquired	23	<u>65,116</u>	<u>254,918</u>
Cash and cash equivalents as stated in the consolidated statement of financial position		<u>1,716,786</u>	<u>1,867,186</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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.

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom Systems Investments Limited	British Virgin Islands	US\$100	100	-	Investment holding
Praises Holdings Limited	British Virgin Islands	US\$100	-	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK\$2	-	100	Investment holding and trading of wireless telecommunications network system equipment
Comba Telecom Systems (Guangzhou) Limited 京信通信系統（廣州）有限公司*	PRC/Mainland China	HK\$260,000,000	-	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術（廣州）有限公司*	PRC/Mainland China	HK\$542,000,000	-	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
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 前稱京信通信系統(中國)有限公司)**	PRC/Mainland China	RMB368,586,416	-	87.74	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Software Technology (Guangzhou) Limited 京信軟件科技（廣州）有限公司*	PRC/Mainland China	HK\$11,000,000	-	100	Provision of software technology services
Guangzhou TPcom Wireless Ltd. 廣州泰普無線通信設備有限公司*	PRC/Mainland China	RMB1,000,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Cascade Technology Limited	British Virgin Islands	US\$1	-	100	Investment holding
WaveLab Holdings Limited	Cayman Islands	US\$1,000	-	55	Investment holding
WaveLab, Inc.	Commonwealth of Virginia/ United States of America	US\$400,000	-	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated	Commonwealth of Virginia/ United States of America	US\$500,000	-	55	Trading of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US\$1	-	55	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司*	PRC/Mainland China	US\$3,400,000	-	55	Manufacture and sale of digital microwave system equipment
WaveLab Limited 波達有限公司	Hong Kong	HK\$1	-	55	Dormant
Comba Telecom Systems International Limited	British Virgin Islands	US\$1	-	100	Investment holding
Comba Telecom Limited	Hong Kong	HK\$2	-	100	Trading of wireless telecommunications network enhancement system equipment and provision of technical support and repairing services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG\$1,000,002	-	100	Provision of marketing services and trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Co., Ltd.	Thailand	THB5,000,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Systems AB	Sweden	SEK100,000	-	100	Provision of marketing services and trading of wireless telecommunications network system equipment
Noblefield International Limited	British Virgin Islands	US\$1	-	87.74	Investment holding
Comba Telecom Inc.	State of Delaware/United States of America	US\$1	-	87.74	Trading of wireless telecommunications network system equipment
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	BRL188,695,129	-	100	Production and assembling and trading of wireless telecommunications network system equipment
Comba Telecom India Private Limited	India	INR500,000	-	100	Trading of wireless telecommunications network system equipment
Comba Telecom Macau Limited 京信通信澳門有限公司	Macau	MOP100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
PT. Comba Telecom	Indonesia	US\$100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom & Sistemas de México, S.A. de C.V.	Mexico	MXN50,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	MXN50,000	-	100	Provision of general and engineering services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable		Principal activities
			to the Company Direct	Indirect	
Comba Telecom, S.L.U.	Spain	EUR100,000	-	87.74	Trading of wireless telecommunications network system equipment
Comba Technologies Sdn. Bhd.	Malaysia	RM350,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecomunicaciones del Peru S.A.C.	Peru	PEN100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Jiafu Investments Limited 迦福投資有限公司	British Virgin Islands	US\$100	-	100	Investment holding
Jiafu Holdings Limited 迦福控股有限公司	Hong Kong	HK\$10,000	-	100	Investment holding
ETL Company Limited	Lao People's Democratic Republic	LAK637,763,000,000	-	51	Provision of operator telecommunication and their value-added services
Rivera Power Limited	British Virgin Islands	US\$1	-	87.74	Investment holding
Comba Telecom Network Systems Limited 京信通信網絡系統有限公司	Hong Kong	HK\$1	-	87.74	Trading of wireless telecommunications network system equipment
ScanViS Limited	Hong Kong	HK\$1	-	87.74	Provision of hardware and software total solutions and services
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.1")	PRC/Mainland China	RMB10,900,000	-	20.64	Investment holding
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.2")	PRC/Mainland China	RMB23,850,000	-	18.03	Investment holding

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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.3")	PRC/Mainland China	RMB19,220,000	-	39.91	Investment holding
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）*** ("Xin Han Tong No.5")	PRC/Mainland China	RMB11,900,000	-	16.39	Investment holding
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）*** ("Xin Han Tong No.6")	PRC/Mainland China	RMB12,380,000	-	18.58	Investment holding
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）*** ("Xin Han Tong No.7")	PRC/Mainland China	RMB13,200,000	-	20.08	Investment holding
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）*** ("Xin Han Tong No.8")	PRC/Mainland China	RMB20,650,000	-	18.16	Investment holding

Note:

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

** This is a joint stock company limited by shares under PRC law.

*** These are limited partnership registered under PRC law, accounted for as subsidiaries of the Group even though the Group has less than 50% equity interest in these companies based on the factors explained in note 3 to the consolidated financial statements.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ 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

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

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 RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount 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 are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

Impairment of non-financial assets

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

Freehold land	Not depreciated
Buildings	4.5%
Plant and machinery	9%-20%
Furniture, fixtures and office equipment	10%-30%
Motor vehicles	18%-20%

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Intangible assets (other than goodwill)

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

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

Computer software and technology

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

Golf club membership

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

Operating license

Operating license is stated at cost less any impairment loss and is amortized on the straight-line basis over its estimated useful lives of 25 years.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development expenses

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

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Buildings	More than 1 to 10 years
Telecom towers and other equipment	More than 1 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in lease liabilities and other payables and accruals.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets(continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due, except for certain customers which are granted with a longer credit term. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables, derivative financial instruments, interest-bearing bank and other borrowings and redeemable preferred shares in a subsidiary.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities. The Group has designated its redeemable preferred shares in a subsidiary as financial liabilities at fair value through profit or loss.

Financial liabilities at amortized cost (loans and borrowings)

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods and related installation

Revenue from the sale of goods and related installation is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods and related installation.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) Operator telecommunication services

Revenue is measured at the transaction price which is the amount of consideration to which the Group entitled in exchange for transferring promised services to the customer. For offerings which included the provision of multiple performance obligations, such as telecommunications services (such as voice and data services), telecommunication related products (such as handsets), customer point rewards and/or other promotional goods/services, the Group allocates the transaction price received/receivable from customers to each performance obligation based on the relative stand-alone selling prices.

Revenue for each performance obligation is then recognized when the Group satisfies the performance obligation by transferring the promised services to a customer. Revenue is recognized when the customer obtains the control of the telecommunications services over the time of provision of the services. Revenue from the sale of telecommunication related products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(c) Technical support and maintenance services

Revenue from the technical support and maintenance services is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

Other income

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

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

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

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

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

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies(continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Revenue recognition

Performance obligation at a point in time

For performance obligations of the Group such as sale of goods and related installation are not distinct from each other, as: (a) the customer is unable to receive and consume the benefits provided by the Group's performance; (b) the Group's performance does not create or enhance an asset (e.g., work in progress) that the customer controls as the asset is created or enhanced; and (c) the Group does not have an enforceable right to payment for performance completed to date. Hence, such performance obligations are satisfied at a point in time. Specifically, revenue of those performance obligations is recognised upon acceptance by the customers after the respective performance obligations are satisfied.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Recognition of a deferred tax liability for withholding taxes

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

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group considers that it controls Xin Han Tong No.1, Xin Han Tong No.2, Xin Han Tong No.3, Xin Han Tong No.5, Xin Han Tong No.6, Xin Han Tong No.7 and Xin Han Tong No.8 Partnership even though it owns less than 50% of the voting rights. This is because the Group is the only general partner which can control the investment management or other activities of these partnerships. For details, please refer to note 30(c) to the financial statements.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was HK\$253,077,000 (2019: HK\$253,077,000). Further details are given in note 14.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates and time value. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses at 31 December 2020 was HK\$174,379,000 (2019: HK\$154,866,000). The amount of unrecognized tax losses at 31 December 2020 was HK\$401,943,000 (2019: HK\$305,711,000). Further details are contained in note 15 to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories at the end of each reporting period and makes provisions against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use based on sales forecasts. Such sales forecasts are prepared based on agreements or orders on hand and estimated sales in the foreseeable future based on historical experiences with its customers and current market conditions of telecommunications industry. Management estimates the net realizable value for those obsolete and slow-moving inventories based primarily on the latest invoice prices and current market conditions. The estimation is reassessed at the end of each reporting period. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognized in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2020 was HK\$1,275,812,000 (2019: HK\$1,191,244,000). For the breakdown, please refer to note 20 to the financial statements. During the year ended 31 December 2020, a write-down of inventories of HK\$84,427,000 (2019: HK\$121,722,000) was recognized in the consolidated statement of profit or loss (note 6).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 37 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The fair value of the unlisted equity investments at 31 December 2020 was HK\$69,414,000 (2019: HK\$41,896,000). Further details are included in note 18 to the financial statements.

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development expenses in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2020, the best estimate of the carrying amount of capitalized development costs was HK\$360,156,000 (2019: HK\$323,468,000). For details, please refer to note 16 to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 HK\$'000	2019 HK\$'000
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 HK\$'000	2019 HK\$'000
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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. (LOSS)/ PROFIT BEFORE TAX

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

	Notes	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold and services provided		3,511,731	3,787,652
Depreciation of property, plant and equipment ^{###}	12	203,821	158,075
Depreciation of right-of-use assets	13	38,853	42,777
Amortization of computer software and technology and operating license ^{###}	16	31,690	27,775
Research and development expenses:			
Deferred expenditure amortized	16	59,614	58,980*
Current year expenditure		411,441	346,785
		<u>471,055</u>	<u>405,765</u>
Lease payments not included in the measurement of lease liabilities	13	12,717	8,247
Auditor's remuneration		4,461	4,366
Employee benefit expense (including directors' remuneration, note 8)^:			
Salaries and wages		1,037,158	1,001,422
Staff welfare expenses		45,989	62,318
Equity-settled share option expense	30(a)	23,020	27,622
Awarded share expenses	30(c)	9,619	-
Pension scheme contributions (defined contribution schemes) [#]		41,057	73,441
		<u>1,156,843</u>	<u>1,164,803</u>
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		(590)	(8,486)
Loss on fair value change of financial assets at fair value through profit or loss ^{#####}		3,847	-
Exchange loss/(gain), net ^{###}		23,042	(14,289)
Write-down of inventories to net realizable value		84,427	121,722
Impairment of trade receivables and notes receivable ^{#####}	21,22	81,465	81,984
Provision for product warranties	27	24,427	28,559
Impairment of financial assets included in prepayments, other receivables and other assets ^{#####}		8,737	37,569
Gain on disposal of items of property, plant and equipment		(5,300)	(752)
Loss on disposal of intangible assets		<u>-</u>	<u>191</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. (LOSS)/PROFIT BEFORE TAX (continued)

- * 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.
- ### The depreciation of property, plant and equipment and amortization of computer software and technology and operating license amounting to HK\$120,395,000 (2019: HK\$85,456,000) and HK\$23,322,000 (2019: HK\$23,322,000) are included in "Other expense" in the consolidated statement of profit or loss, respectively.
- #### Loss on fair value change of financial assets at fair value through profit or loss, impairment of trade receivables and notes receivable and impairment of financial assets included in prepayments, other receivables and other assets are included in "Other expense" in the consolidated statement of profit or loss.

7. FINANCE COSTS

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES

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

	2020 HK\$'000	2019 HK\$'000
Fees	880	740
Other emoluments:		
Salaries, allowances and benefits in kind	15,234	14,552
Performance related bonuses	14,259	2,905
Equity-settled share option expense	7,358	8,302
Share based payment expense	1,603	-
Pension scheme contributions	192	214
	38,646	25,973
	39,526	26,713

(a) Executive directors, non-executive director and independent non-executive directors

2020	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Share based payment expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:							
Mr. Fok Tung Ling	-	2,075	875	-	-	18	2,968
Mr. Zhang Yue Jun	-	943	656	-	-	18	1,617
Mr. Xu Huijun	-	3,509	5,766	2,394	533	46	12,248
Mr. Chang Fei Fu	-	3,436	1,324	1,251	255	18	6,284
Mr. Bu Binlong	-	1,413	2,064	1,258	255	64	5,054
Ms. Huo Xinru	-	2,488	1,985	1,090	255	18	5,836
	-	13,864	12,670	5,993	1,298	182	34,007
Non-executive director:							
Mr. Wu Tielong	-	1,370	1,589	1,205	305	10	4,479
Independent non-executive directors:							
Mr. Lau Siu Ki, Kevin	220	-	-	60	-	-	280
Dr. Lin Jin Tong	220	-	-	60	-	-	280
Ms. Ng Yi Kum	220	-	-	40	-	-	260
Ms. Wong Lok Lam (appointed on 24 Nov 2020)	23	-	-	-	-	-	23
Ms. Leung Hoi Wai (resigned on 24 Nov 2020)	197	-	-	-	-	-	197
	880	-	-	160	-	-	1,040
	880	15,234	14,259	7,358	1,603	192	39,526

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

(a) Executive directors, non-executive director and independent non-executive directors (continued)

2019	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:						
Mr. Fok Tung Ling	-	2,091	1,015	-	18	3,124
Mr. Zhang Yue Jun	-	1,201	1,048	-	18	2,267
Mr. Xu Huijun	-	3,281	164	2,814	57	6,316
Mr. Chang Fei Fu	-	3,436	-	1,474	18	4,928
Mr. Bu Binlong	-	1,356	515	1,451	75	3,397
Ms. Huo Xinru	-	1,960	-	1,016	15	2,991
	-	13,325	2,742	6,755	201	23,023
Non-executive director:						
Mr. Wu Tielong	-	1,227	163	1,366	13	2,769
Independent non-executive directors:						
Mr. Lau Siu Ki, Kevin	220	-	-	71	-	291
Dr. Lin Jin Tong	220	-	-	71	-	291
Ms. Ng Yi Kum	171	-	-	38	-	209
Ms. Leung Hoi Wai	120	-	-	-	-	120
Mr. Qian Ting Shuo	9	-	-	1	-	10
	740	-	-	181	-	921
	740	14,552	2,905	8,302	214	26,713

Certain executive directors of the Company are entitled to bonus payments which are determined by reference to the Group's last year performance.

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

(b) 5 highest paid employees

The 5 highest paid employees during the year included 5 directors (2019: 5 directors), details of whose remuneration are set out in note 8(a) above.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. 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.

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

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 .

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. INCOME TAX (continued)

	2020 HK\$'000	% ¹	2019 HK\$'000	% ¹
(Loss)/profit before tax	<u>(268,112)</u>		<u>130,675</u>	
Tax at the applicable tax rate	(6,649)	(2.48)	30,033	(22.98)
Adjustments in respect of current tax of previous years	(5,025)	(1.87)	(9,899)	7.57
Income not subject to tax	(2,335)	(0.87)	(193)	0.15
Expenses not deductible for tax	11,530	4.30	25,498	(19.51)
Additional deductible research and development expenses	(49,928)	(18.62)	(40,926)	31.32
Tax losses utilized from previous years	(13,572)	(5.06)	(9,431)	7.22
Effect on opening deferred tax of decrease in rates	4,514	1.68	-	-
Tax losses not recognized	<u>84,476</u>	<u>31.50</u>	<u>66,771</u>	<u>(51.10)</u>
Tax charge at the Group's effective rate	<u>23,011</u>	<u>8.58</u>	<u>61,853</u>	<u>(47.33)</u>

The Group has tax losses arising in Hong Kong and other jurisdictions of HK\$401,943,000 (2019: HK\$305,711,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognized deferred tax assets at 31 December 2020.

10. DIVIDENDS

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

11. (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:

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2020						
At 31 December 2019 and 1 January 2020:						
Cost or valuation	702,021	2,788,421	269,300	59,645	-	3,819,387
Accumulated depreciation	(221,321)	(1,995,081)	(231,787)	(50,905)	-	(2,499,094)
Net carrying amount	<u>480,700</u>	<u>793,340</u>	<u>37,513</u>	<u>8,740</u>	<u>-</u>	<u>1,320,293</u>
At 1 January 2020, net of accumulated depreciation	480,700	793,340	37,513	8,740	-	1,320,293
Additions	16,632	118,404	14,430	3,206	92,969	245,641
Disposals	(8,056)	(8,811)	(8,071)	(3,592)	-	(28,530)
Depreciation provided during the year	(34,692)	(161,704)	(4,844)	(2,581)	-	(203,821)
Exchange realignment	<u>12,104</u>	<u>8,709</u>	<u>1,378</u>	<u>(3)</u>	<u>1,480</u>	<u>23,668</u>
At 31 December 2020, net of accumulated depreciation	<u>466,688</u>	<u>749,938</u>	<u>40,406</u>	<u>5,770</u>	<u>94,449</u>	<u>1,357,251</u>
At 31 December 2020:						
Cost or valuation	733,341	2,832,459	275,079	52,482	94,449	3,987,810
Accumulated depreciation	(266,653)	(2,082,521)	(234,673)	(46,712)	-	(2,630,559)
Net carrying amount	<u>466,688</u>	<u>749,938</u>	<u>40,406</u>	<u>5,770</u>	<u>94,449</u>	<u>1,357,251</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2019						
At 31 December 2018 and 1 January 2019:						
Cost or valuation	667,949	2,426,079	305,200	64,152	194,477	3,657,857
Accumulated depreciation	(196,706)	(2,021,742)	(260,735)	(50,415)	-	(2,529,598)
Net carrying amount	<u>471,243</u>	<u>404,337</u>	<u>44,465</u>	<u>13,737</u>	<u>194,477</u>	<u>1,128,259</u>
At 1 January 2019, net of accumulated depreciation	471,243	404,337	44,465	13,737	194,477	1,128,259
Additions	56,651	45,040	12,396	800	291,941	406,828
Disposals	(3,577)	(9,675)	(4,248)	(788)	-	(18,288)
Depreciation provided during the year	(34,400)	(104,650)	(14,382)	(4,643)	-	(158,075)
Transfer	-	467,345	-	-	(467,345)	-
Exchange realignment	(9,217)	(9,057)	(718)	(366)	(19,073)	(38,431)
At 31 December 2019, net of accumulated depreciation	<u>480,700</u>	<u>793,340</u>	<u>37,513</u>	<u>8,740</u>	<u>-</u>	<u>1,320,293</u>
At 31 December 2019:						
Cost or valuation	702,021	2,788,421	269,300	59,645	-	3,819,387
Accumulated depreciation	(221,321)	(1,995,081)	(231,787)	(50,905)	-	(2,499,094)
Net carrying amount	<u>480,700</u>	<u>793,340</u>	<u>37,513</u>	<u>8,740</u>	<u>-</u>	<u>1,320,293</u>

For the year ended 31 December 2020, no revaluation of buildings was performed as there were no significant movements in the fair value of the buildings.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of prepaid land lease payment, buildings, and other equipment. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 and 10 years, while other equipment generally has lease terms between 1 and 10 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land HK\$'000	Buildings HK\$'000	Telecom towers and other equipment HK\$'000	Total HK\$'000
As at 1 January 2020	115,976	131,881	5,404	253,261
Additions	-	23,040	42,681	65,721
Depreciation charge	(2,918)	(33,810)	(2,125)	(38,853)
Revision of a lease term arising from a change	-	(508)	(1,507)	(2,015)
Exchange realignment	6,712	298	(1,379)	5,631
As at 31 December 2020	<u>119,770</u>	<u>120,901</u>	<u>43,074</u>	<u>283,745</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

13. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under lease liabilities and other payables and accruals) and the movements during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Carrying amount at 1 January	137,667	94,912
New leases	65,389	83,603
Accretion of interest recognized during the year	3,542	5,484
COVID-19-related rent concessions from lessors	(1,864)	-
Payments	(40,305)	(44,540)
Revision of a lease term arising from a change	(2,397)	-
Exchange realignment	(4,409)	(1,792)
Carrying amount at 31 December	<u>157,623</u>	<u>137,667</u>
Analyzed into:		
Current portion	54,031	43,258
Non-current portion	<u>103,592</u>	<u>94,409</u>

(c) The amounts recognized in profit or loss in relation to leases are as follows:

	2020 HK\$'000	2019 HK\$'000
Interest on lease liabilities	3,542	5,484
Depreciation charge of right-of-use assets	38,853	42,777
Expense relating to short-term leases or of low-value assets	12,717	8,247
COVID-19-related rent concessions from lessors	<u>(1,864)</u>	<u>-</u>
Total amount recognized in profit or loss	<u>53,248</u>	<u>56,508</u>

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 32(b) to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

13. LEASES (continued)

The Group as a lessor

The Group leases certain of its properties under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognized by the Group during the year was HK\$9,671,000 (2019: HK\$9,073,000), details of which are included in note 5 to the financial statements.

As at 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 year	7,213	7,433
After 1 year but within 2 years	5,463	6,455
After 2 years but within 3 years	2,894	3,122
After 3 years but within 4 years	2,772	2,719
After 4 years but within 5 years	2,150	1,999
After 5 years	2,748	3,559
	<u>23,240</u>	<u>25,287</u>

14. GOODWILL

	2020 HK\$'000	2019 HK\$'000
Cost and net carrying amount	<u>253,077</u>	<u>253,077</u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Wireless telecommunications equipment CGU; and
- Provision of operator telecommunication services and their value added services CGU.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least a 5-year period approved by management. The discount rate applied to the cash flow projections is approximately from 15% to 17% (2019: 14% to 17%), and cash flows beyond the 5-year period were extrapolated using a growth rate of 2.0% to 3.0% (2019: 2.0% to 3.0%), which was represented by expected long term CPI growth rate.

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

15. DEFERRED TAX

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

Deferred tax assets

	Unrealized profit HK\$'000	Accruals HK\$'000	Products warranty HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 January 2019	27,160	28,852	18,408	27,593	102,013
Deferred tax (charged)/credited to the statement of profit or loss during the year	(11,397)	(15,669)	2,774	129,527	105,235
Exchange realignment	(298)	(279)	(353)	(2,254)	(3,184)
At 31 December 2019	15,465	12,904	20,829	154,866	204,064
Deferred tax (charged)/credited to the statement of profit or loss during the year	(7,830)	209	(4,986)	9,442	(3,165)
Exchange realignment	496	807	1,003	10,071	12,377
At 31 December 2020	8,131	13,920	16,846	174,379	213,276

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. DEFERRED TAX (continued)

Deferred tax liabilities

	Revaluation of properties HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Fair value adjustments for equity investments designated at fair value HK\$'000	Total HK\$'000
At 1 January 2019	8,188	145,402	4,917	158,507
Deferred tax changed/(credited) to the statement of profit or loss during the year	(632)	(7,554)	2,121	(6,065)
Deferred tax credited to equity statement during the year	-	-	(27)	(27)
At 31 December 2019	7,556	137,848	7,011	152,415
Deferred tax charged/(credited) to the statement of profit or loss during the year	(635)	(7,552)	(814)	(9,001)
Deferred tax credited to equity statement during the year	(668)	-	5,755	5,087
At 31 December 2020	6,253	130,296	11,952	148,501

At 31 December 2020, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately HK\$2,071,067,000 at 31 December 2020 (2019: HK\$2,085,877,000).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. INTANGIBLE ASSETS

	Operating license HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
31 December 2020					
Cost at 1 January 2020, net of accumulated amortization	513,172	22,099	1,114	323,468	859,853
Additions	-	15,257	-	75,482	90,739
Disposals	-	(7)	-	-	(7)
Amortization provided during the year	(23,322)	(8,368)	-	(59,614)	(91,304)
Exchange realignment	-	1,464	-	20,820	22,284
At 31 December 2020, net of accumulated amortization	<u>489,850</u>	<u>30,445</u>	<u>1,114</u>	<u>360,156</u>	<u>881,565</u>
At 31 December 2020:					
Cost	569,533	138,165	1,114	863,639	1,572,451
Accumulated amortization	<u>(79,683)</u>	<u>(107,720)</u>	<u>-</u>	<u>(503,483)</u>	<u>(690,886)</u>
Net carrying amount	<u>489,850</u>	<u>30,445</u>	<u>1,114</u>	<u>360,156</u>	<u>881,565</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. INTANGIBLE ASSETS (continued)

	Operating license HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
31 December 2019					
Cost at 1 January 2019, net of accumulated amortization	536,494	16,856	1,114	301,586	856,050
Additions	-	10,223	-	86,405	96,628
Disposals	-	(191)	-	-	(191)
Amortization provided during the year	(23,322)	(4,453)	-	(58,980)	(86,755)
Exchange realignment	-	(336)	-	(5,543)	(5,879)
At 31 December 2019, net of accumulated amortization	<u>513,172</u>	<u>22,099</u>	<u>1,114</u>	<u>323,468</u>	<u>859,853</u>
At 31 December 2019:					
Cost	569,533	45,590	1,114	788,157	1,404,394
Accumulated amortization	<u>(56,361)</u>	<u>(23,491)</u>	<u>-</u>	<u>(464,689)</u>	<u>(544,541)</u>
Net carrying amount	<u>513,172</u>	<u>22,099</u>	<u>1,114</u>	<u>323,468</u>	<u>859,853</u>

17. INVESTMENT IN A JOINT VENTURE

	2020 HK\$'000	2019 HK\$'000
Share of net assets	10,323	-
Goodwill on acquisition	1,533	-
	<u>11,856</u>	<u>-</u>

Particulars of the Group's material joint venture are as follows:

Name	Particulars of issued shares held	Place of Registration and business	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
CLB ELEKTRONİK ELEKTRİK İLETİŞİM ÜRETİM ARAŞTIRMA GELİŞTİRME MÜHENDİSLİK SANAYİ VE TİCARET ANONİM ŞİRKETİ	Registered capital of TRY1 each	Turkey	50	50	50	Manufacture and sale of electronic products

The above investment is indirectly held by the Company.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. INVESTMENT IN A JOINT VENTURE (continued)

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

	2020 HK\$'000	2019 HK\$'000
Share of the joint venture's profit for the year	1,052	-
Share of the joint venture's total comprehensive income	1,052	-
Carrying amount of the Group's investment in the joint venture	<u>11,856</u>	<u>-</u>

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK\$'000	2019 HK\$'000
Equity investments designated at fair value through other comprehensive income:		
Unlisted equity investments, at fair value		
极芯通讯技术南京有限公司 (原 “合肥长河芯动通讯技术有限公司”)	28,970	11,186
深圳市汇芯通信技术有限公司	<u>9,593</u>	<u>2,237</u>
	<u>38,563</u>	<u>13,423</u>
Equity investments designated at fair value through profit or loss:		
Unlisted equity investments, at fair value		
北京奕斯伟信息技术有限公司	27,733	25,527
通号粤港澳 (广州) 交通科技有限公司	<u>3,118</u>	<u>2,946</u>
	<u>30,851</u>	<u>28,473</u>
Financial assets at fair value through profit or loss:		
Forward currency contracts	<u>1,475</u>	<u>-</u>

The equity investments of 极芯通讯技术南京有限公司 (原 “合肥长河芯动通讯技术有限公司”) and 深圳市汇芯通信技术有限公司 were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The equity investments of 北京奕斯伟信息技术有限公司 and 通号粤港澳（广州）交通科技有限公司 were classified as equity investments designated at fair value through profit or loss as they were held for trading.

These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 HK\$'000	2019 HK\$'000
Prepayments	421,304	349,934
Deposits	168,126	150,380
Other receivables	<u>280,368</u>	<u>321,334</u>
	869,798	821,648
Impairment allowance	<u>(33,993)</u>	<u>(30,747)</u>
	<u>835,805</u>	<u>790,901</u>

Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers. As at 31 December 2020, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2020 was 0.10% to 10.00% and 100% for stage 1 and stage 3 respectively (2019: 0.10% to 10.00% and 100% for stage 1 and stage 3).

20. INVENTORIES

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

21. TRADE RECEIVABLES

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

21. TRADE RECEIVABLES (continued)

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

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on groupings of various customer segments with similar loss patterns (i.e., geography, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020		Past due			Total
	Current	Less than 1 year	1-2 years	Over 2 years	
Expected credit loss rate	1.55%	2.35%	14.82%	55.80%	
Gross carrying amount (HK\$'000)	2,748,975	794,891	356,643	779,262	4,679,771
Expected credit losses (HK\$'000)	42,504	18,664	52,837	434,867	548,872
As at 31 December 2019		Past due			Total
	Current	Less than 1 year	1-2 years	Over 2 years	
Expected credit loss rate	1.51%	2.24%	14.78%	51.00%	
Gross carrying amount (HK\$'000)	2,738,974	709,106	297,023	722,240	4,467,343
Expected credit losses (HK\$'000)	41,458	15,849	43,895	368,360	469,562

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. NOTES RECEIVABLE

	2020 HK\$'000	2019 HK\$'000
Notes receivable	136,936	160,003
Impairment	<u>(2,804)</u>	<u>(3,181)</u>
	<u>134,132</u>	<u>156,822</u>

At 31 December 2020 and 31 December 2019 none of the notes receivable were endorsed.

All notes receivable of the Group would mature within 9 months.

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances	1,651,670	1,612,268
Time deposits	<u>225,184</u>	<u>495,629</u>
	1,876,854	2,107,897
Less:		
Restricted bank deposits for bills payable	(17,356)	(11,240)
Restricted bank deposits for performance bonds	<u>(142,712)</u>	<u>(229,471)</u>
Cash and cash equivalents	<u>1,716,786</u>	<u>1,867,186</u>

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$1,349,484,000 (2019: HK\$1,291,860,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

24. 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:

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

25. OTHER PAYABLES AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Accruals	194,095	153,794
Contract liabilities	99,801	111,556
Other payables	<u>550,971</u>	<u>827,106</u>
	<u>844,867</u>	<u>1,092,456</u>

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

26. INTEREST-BEARING BANK BORROWINGS

	2020		2019	
	Maturity	HK\$'000	Maturity	HK\$'000
Current				
Bank loans – secured	2021	<u>972,173</u>	2020	<u>115,086</u>
Non-current				
Bank loans – secured	2022	<u>410,300</u>	2021-2025	<u>1,643,039</u>
		<u>1,382,473</u>		<u>1,758,125</u>
Analyzed into:				
Bank loans repayable				
Within 1 year or on demand		972,173		115,086
In the 2nd year		410,300		885,986
In the 3rd to 5th years, inclusive		-		645,198
Beyond 5 years		<u>-</u>		<u>111,855</u>
		<u>1,382,473</u>		<u>1,758,125</u>

During the year ended 31 December 2020, the Group applied to the relevant bank for early repayment of certain outstanding long-term loans in the amount of RMB320,000,000 (equivalent to approximately HK\$379,990,000) with original maturities between 2021 to 2025.

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 (note 37).

As at 31 December 2020 and 2019, certain bank loans carried floating rate at Hong Kong Interbank Offered Rate("HIBOR") plus a margin per annum. 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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

27. PROVISION FOR PRODUCT WARRANTIES

	2020 HK\$'000	2019 HK\$'000
At 1 January	73,764	63,831
Additional provision	24,427	28,559
Amounts utilized during the year	(28,210)	(17,379)
Exchange realignment	4,332	(1,247)
At 31 December	<u>74,313</u>	<u>73,764</u>

The Group generally provides warranties of 1 to 2 years to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for product warranties were not discounted as the effect of discounting was not material.

28. REDEEMABLE PREFERRED SHARES IN A SUBSIDIARY

	2020 HK\$'000	2019 HK\$'000
Redeemable preferred shares in a subsidiary	<u>111,908</u>	<u>-</u>

On 22 December 2020, Comba Network Systems Company Limited ("Comba Network") issue 16,586,416 shares to an investor, representing 4.5% of the enlarged equity interest in Comba Network for the consideration of HK\$111,908,000.

The key terms of the preferred shares in a subsidiary are summarised as follows:

(a) Liquidation preference

In the event of any liquidation event (including customarily-deemed-liquidation events such as acquisition), the holders of the preferred shares in a subsidiary would be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to the per share purchase price plus a pre-determined simple interest rate and any declared but unpaid dividends (the "Preference Amount"), proportionately adjusted for share splits, share dividends, recapitalisations and the like.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. REDEEMABLE PREFERRED SHARES IN A SUBSIDIARY (continued)

The key terms of the preferred shares in a subsidiary are summarised as follows:
(continued)

(b) Redemption rights

If Comba Network fails to consummate a qualified public offering prior to the fourth anniversary of 22 December 2020, at the option of the holder of the preferred shares in a subsidiary, the Group shall redeem all of the outstanding preferred shares in a subsidiary held by the requesting holder, at the price for preferred share issue price and a return at a pre-determined simple interest rate on all accrued but unpaid dividends, proportionally adjusted for share splits, share dividends, recapitalisations and the like. The redemption rights shall be terminated upon the closing of a qualified public offering.

The redeemable preferred shares in a subsidiary were designated as financial liabilities at fair value through profit or loss on initial recognition. At the end of the reporting period subsequent to initial recognition, all redeemable preferred shares in a subsidiary are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

The movements of the preferred shares in a subsidiary are set out below:

	2020 HK\$'000
Issuance in December	<u>111,908</u>
At 31 December	<u>111,908</u>

The Group applied the discounted cash flow method to determine the underlying equity value of the Comba Network and adopted option-pricing method and equity allocation model to determine the fair value of the redeemable preferred shares in a subsidiary. Key assumptions are set as below:

	31 December 2020
Discount rate	16%
Risk-free interest rate	2.886%
Discount for lack of marketability	20%
Volatility	43.94%

Discount rate was estimated by weighted average cost of capital as of each appraisal date. The Group estimated the risk-free interest rate based on the yield of Chinese Treasury with a maturity life equal to period from the respective appraisal dates to expected liquidation date. Volatility was estimated at the dates of appraisal based on average of historical volatilities of comparable companies in the same industry for a period from the respective appraisal dates to expected liquidation date.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

29. SHARE CAPITAL

<u>Shares</u>	2020 HK\$'000	2019 HK\$'000
Authorized:		
5,000,000,000 (2019: 5,000,000,000) ordinary shares of HK\$0.10 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid or credited as fully paid:		
2,750,593,918 (2019: 2,485,988,818) ordinary shares of HK\$0.10 each	<u>275,060</u>	<u>248,599</u>

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

	Notes	Number of shares in issue	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2019		2,419,474,860	241,948	(22,818)	598,797	817,927
Share option scheme - exercise of share options	(a)	<u>66,513,958</u>	<u>6,651</u>	<u>-</u>	<u>116,975</u>	<u>123,626</u>
At 31 December 2019 and 1 January 2020		2,485,988,818	248,599	(22,818)	715,772	941,553
Share option scheme - exercise of share options	(b)	<u>34,605,100</u>	<u>3,461</u>	<u>-</u>	<u>58,017</u>	<u>61,478</u>
Issue of shares	(c)	<u>230,000,000</u>	<u>23,000</u>	<u>-</u>	<u>663,235</u>	<u>686,235</u>
At 31 December 2020		<u>2,750,593,918</u>	<u>275,060</u>	<u>(22,818)</u>	<u>1,437,024</u>	<u>1,689,266</u>

As at 31 December 2020, the total number of issued ordinary shares of the Company was 2,750,593,918 (2019: 2,485,988,818) shares which included 16,637,136 (2019: 16,637,136) shares held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (note 30(b)).

Notes:

- (a) During the year ended 31 December 2019, the subscription rights attaching to 43,600,308 share options, 19,823,650 share options and 3,090,000 share options were exercised at the adjusted exercise prices of HK\$1.354 per share, HK\$1.255 per share and HK\$1.170 per share respectively, resulting in the issue of 66,513,958 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$87,528,000.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

29. SHARE CAPITAL (continued)

- (b) During the year ended 31 December 2020, the subscription rights attaching to 19,692,600 share options, 9,676,500 share options and 5,236,000 share options were exercised at the exercise prices of HK\$1.255 per share, HK\$1.170 per share and HK\$1.890 per share respectively, resulting in the issue of 34,605,100 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$45,932,000.
- (c) During the year ended 31 December 2020, the Company completed the top-up placing of 282,000,000 shares of HK\$0.10 each at a placing price of HK\$3.05 per share and the subscription of 230,000,000 new shares of HK\$0.10 each at a subscription price of HK\$3.05 each (the "Subscription"). The net proceeds from the Subscription are approximately HK\$686,235,000 (after deducting the related costs and expenses) which would result in the additional share capital of approximately HK\$23,000,000 and share premium of approximately HK\$663,235,000.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME

(a) Share Option Scheme

The Company operates a share option scheme adopted on 3 June 2013 (the “2013 Scheme”) which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for ten years from that date and will expire on 3 June 2023.

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

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

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

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

	2020		2019	
	Weighted average exercise price of each share option HK\$	Number of share options	Weighted average exercise price of each share option HK\$	Number of share options
At 1 January	1.525	174,913,850	1.258	169,213,454
Exercised during the year	1.327	(34,605,100)	1.316	(66,513,958)
Forfeited during the year	1.545	(2,248,500)	1.243	(6,415,918)
Expired during the year	-	-	1.354	(1,369,728)
Granted during the year	-	-	1.890	80,000,000
At 31 December	1.574	138,060,250	1.525	174,913,850

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	Number of share options						Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2020	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2020		
Executive directors								
Mr. Fok Tung Ling	-	-	-	-	-	-	-	-
Mr. Zhang Yue Jun	-	-	-	-	-	-	-	-
Mr. Xu Huijun	5,000,000	-	-	-	-	5,000,000	1,300	-
	10,000,000	-	-	-	-	10,000,000	1,890	-
	15,000,000	-	-	-	-	15,000,000		
Mr. Chang Fei Fu	3,300,000	-	(2,200,000)	-	-	1,100,000	1,255	2,3164
	2,000,000	-	(500,000)	-	-	1,500,000	1,170	2,3080
	5,000,000	-	-	-	-	5,000,000	1,890	-
	10,300,000	-	(2,700,000)	-	-	7,600,000		2,3149
Mr. Bu Binlong	3,300,000	-	-	-	-	3,300,000	1,255	-
	1,800,000	-	-	-	-	1,800,000	1,170	-
	5,000,000	-	-	-	-	5,000,000	1,890	-
	10,100,000	-	-	-	-	10,100,000		-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME(continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	Number of share options						Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2020	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2020			
Executive directors									
Ms. Huo Xinru	1,050,000	-	-	-	-	1,050,000	10 Apr 19 - 9 Apr 23	1.170	-
	5,000,000	-	-	-	-	5,000,000	8 Apr 20 - 7 Apr 24	1.890	-
	6,050,000	-	-	-	-	6,050,000			-
Non-executive director									
Mr. Wu Tielong	1,650,000	-	-	-	-	1,650,000	26 Aug 17 - 25 Aug 21	1.255	-
	1,800,000	-	-	-	-	1,800,000	10 Apr 19 - 9 Apr 23	1.170	-
	5,000,000	-	-	-	-	5,000,000	8 Apr 20 - 7 Apr 24	1.890	-
	8,450,000	-	-	-	-	8,450,000			-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	At 1 January 2020	Granted during the year	Number of share options				Forfeited during the year	Expired during the year	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
			Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year						
Independent non-executive directors												
Mr. Lau Siu Ki, Kevin	110,000	-	-	-	-	-	-	-	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255	-
	200,000	-	-	-	-	-	-	-	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170	-
	200,000	-	-	-	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-
	510,000	-	-	-	-	-	-	-				-
Dr. Lin Jin Tong	55,000	-	-	-	-	-	-	-	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255	-
	200,000	-	-	-	-	-	-	-	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170	-
	200,000	-	-	-	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-
	455,000	-	-	-	-	-	-	-				-
Ms. Ng Yi Kum	200,000	-	-	-	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-
Ms. Wong Lok Lam (appointed on 24 Nov 2020)	-	-	-	-	-	-	-	-				
Ms. Leung Hoi Wai (resigned on 24 Nov 2020)	-	-	-	-	-	-	-	-				

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2020	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year				
Other employees									
in aggregate	-	-	(17,492,600)	-	(375,000)	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255	3,0161
	37,389,850	-	(9,176,500)	-	(747,000)	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170	3,1699
	37,209,000	-	(5,236,000)	-	(1,126,500)	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	3,3259
	49,250,000	-	(31,905,100)	-	(2,248,500)				3,1112
	123,848,850	-	(34,605,100)	-	(2,248,500)				
	174,913,850	-	(34,605,100)	-	(2,248,500)				

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

During the year ended 31 December 2019, certain directors were granted share options on 8 April 2019 in respect of their services to the Group under the share options scheme of the Company. The fair value of share options granted to (i) Mr. Xu Huijun was approximately HK\$6,214,000, (ii) each of Mr. Chang Fei Fu, Mr. Bu Binlong, Ms. Huo Xinru and Mr. Wu Tielong was approximately HK\$3,106,000, (iii) each of Mr. Lau Siu Ki, Kevin, Mr. Lin Jin Tong and Ms. Ng Yi Kim was approximately HK\$124,000, and (iv) other employees in aggregate was approximately HK\$29,997,000 on the date of grant.

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

31 December 2020

Number of share options	Exercise price of share options HK\$	Exercise period
25,737,250	1.255	26 August 2017 to 25 August 2021
33,835,500	1.170	10 April 2019 to 9 April 2023
5,000,000	1.300	28 August 2019 to 27 August 2023
73,487,500	1.890	8 April 2020 to 7 April 2024
<u>138,060,250</u>		

31 December 2019

Number of share options	Exercise price of share options HK\$	Exercise period
45,804,850	1.255	26 August 2017 to 25 August 2021
44,259,000	1.170	10 April 2019 to 9 April 2023
5,000,000	1.300	28 August 2019 to 27 August 2023
79,850,000	1.890	8 April 2020 to 7 April 2024
<u>174,913,850</u>		

The expense recognized in the consolidated statement of profit or loss for employee services received during the year is approximately HK\$23,020,000 (2019: HK\$27,622,000).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

At the end of the reporting period, the Company had 138,060,250 share options outstanding under the 2013 Scheme, of which 53,947,750 were vested and 84,112,500 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 138,060,250 additional ordinary shares of the Company and additional share capital of HK\$13,806,000 and share premium of HK\$203,473,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 134,538,750 share options outstanding under the 2013 Scheme, which represented approximately 4.89% of the Company's shares in issue as at that date.

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 28 May 2018, the Company may further grant 246,516,486 share options (being 10% of the total number of issued shares of the Company as at 28 May 2018). Since 5,000,000 share options and 80,000,000 share options were granted on 28 August 2018 and 8 April 2019 respectively, the total number of unissued share options under the scheme limit became 161,516,486, representing approximately 5.87% of the Company's shares in issue as at 31 December 2020.

(b) Share Award Scheme

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

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

The Board has resolved to renew the term of the Share Award Scheme for a term of ten years as from 25 March 2021 to 25 March 2031.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(b) Share Award Scheme (continued)

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

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010.

Movements in the number of treasury shares held for the Share Award Scheme for the years ended 31 December 2019 and 2020 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>16,637,136</u>

No Awarded Shares held for Selected Persons were outstanding as at 31 December 2020.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(c) Share Incentive Scheme

On 29 May 2020, the Company adopted a share incentive scheme (the “Share Incentive Scheme”) and on 1 June 2020 and 10 June 2020, the shares of Comba Network, an indirect subsidiary of the Company, were awarded to directors, employees and consultants of the Group to recognize their contributions. Comba Business Consulting (Guangzhou) Limited (“Comba Consulting”), an indirect wholly-owned subsidiary of the Company, acts as a general partner, together with the selected participants in the Share Incentive Scheme (the “Selected Participants”) who act as limited partners, has set up three Non-G Partnerships (as defined below) and four G Partnerships (as defined below) in the PRC.

Comba Consulting has set up Xin Han Tong No.2, Xin Han Tong No.7 and Xin Han Tong No.8 (the “Non-G Partnerships”) under the Non-G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. The Selected Participants under Non-G Partnerships consist of four directors of the Company, five directors of the relevant subsidiaries of the Company, 98 employees of the Group (excluding Comba Network and its subsidiaries, the “Comba Network Group”) and three consultants of the Group (excluding the Comba Network Group). Upon the establishment, Non-G Partnerships purchase certain existing shares of Comba Network from Comba Telecom Systems Limited a wholly owned subsidiary of the Company, at the total consideration of RMB57,700,000.

Comba Consulting has also set up Xin Han Tong No.1, Xin Han Tong No.3, Xin Han Tong No.5 and Xin Han Tong No.6 (the “G Partnerships”) under the G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. The Selected Participants in the G Partnerships consist of one director of the Company, three directors of the relevant subsidiaries of the Company as well as 119 employees of the Comba Network Group. Upon the establishment, G Partnerships subscribe for and Comba Network issues certain new shares at the total consideration of RMB54,400,000.

Each of the Non-G Partnerships and G Partnerships has been accounted for as a subsidiary of the Company and its financial results have been consolidated into the accounts of the Company. After completion of relevant acquisitions of the incentive shares under the Share Incentive Scheme, the Non-G Partnerships and G Partnerships hold approximately 5.37% and 5.06% of the equity interest of Comba Network, respectively.

The Group had recorded the expenses associated with the awarded shares under the Share Incentive Scheme of HK\$9,619,000 in the statement of profit or loss in 2020.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 84 and 85 of the annual report.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities were as follows:

2020	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2020	1,758,125	137,667
Changes from financing cash flows	(398,392)	(36,763)
New leases	-	65,389
Foreign exchange movement	22,740	(4,409)
Interest expense	-	3,542
COVID-19-related rent concessions from lessors		(1,864)
Reassessment and revision of lease terms	-	(2,397)
Interest paid classified as operating cash flows	-	(3,542)
At 31 December 2020	<u>1,382,473</u>	<u>157,623</u>
2019	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2019	2,000,056	94,912
Changes from financing cash flows	(235,344)	(39,056)
New leases	-	83,603
Foreign exchange movement	(6,587)	(1,792)
Interest expense	-	5,484
Interest paid classified as operating cash flows	-	(5,484)
At 31 December 2019	<u>1,758,125</u>	<u>137,667</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 HK\$'000	2019 HK\$'000
Within operating activities	3,542	13,731
Within financing activities	<u>36,763</u>	<u>39,056</u>
	<u>40,305</u>	<u>52,787</u>

33. CONTINGENT LIABILITIES

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

	2020 HK\$'000	2019 HK\$'000
Guarantees given to banks in respect of performance bonds*	<u>381,819</u>	<u>442,892</u>

* Part of performance bonds are secured by the pledge of certain of the Group's time deposits amounting to HK\$142,712,000 (2019: HK\$229,471,000).

34. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Contracted, but not provided for: Plant and machinery	<u>17,225</u>	<u>16,210</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

35. RELATED PARTY TRANSACTIONS

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

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

	2020 HK\$'000	2019 HK\$'000
Short-term employee benefits	30,373	18,197
Equity-settled share option expense	7,358	8,302
Share based payment expense	1,603	-
Pension scheme contributions	<u>192</u>	<u>214</u>
Total compensation paid to key management personnel	<u>39,526</u>	<u>26,713</u>

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

2020

Financial assets

	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	1,475	-	1,475
Equity investments at fair value through other comprehensive income	-	-	38,563	38,563
Equity investments at fair value through profit or loss	-	30,851	-	30,851
Trade receivables	4,130,899	-	-	4,130,899
Notes receivable	134,132	-	-	134,132
Financial assets included in prepayments, other receivables and other assets	448,494	-	-	448,494
Restricted bank deposits	160,068	-	-	160,068
Cash and cash equivalents	1,716,786	-	-	1,716,786
	<u>6,590,379</u>	<u>32,326</u>	<u>38,563</u>	<u>6,661,268</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

<u>Financial liabilities</u>	Financial liabilities at amortized cost HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	111,908	111,908
Trade and bills payables	4,030,825	-	4,030,825
Financial liabilities included in other payables and accruals	592,564	-	592,564
Interest-bearing bank borrowings	1,382,473	-	1,382,473
Lease liabilities	103,592	-	103,592
	<u>6,109,454</u>	<u>111,908</u>	<u>6,221,362</u>

2019

<u>Financial assets</u>	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Equity investments at fair value through other comprehensive income	-	-	13,423	13,423
Equity investments at fair value through profit or loss	-	28,473	-	28,473
Trade receivables	3,997,781	-	-	3,997,781
Notes receivable	156,822	-	-	156,822
Financial assets included in prepayments, other receivables and other assets	471,714	-	-	471,714
Restricted bank deposits	240,711	-	-	240,711
Cash and cash equivalents	1,867,186	-	-	1,867,186
	<u>6,734,214</u>	<u>28,473</u>	<u>13,423</u>	<u>6,776,110</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Financial liabilities

	Financial liabilities at amortized cost HK\$'000	Total HK\$'000
Trade and bills payables	4,026,068	4,026,068
Financial liabilities included in other payables and accruals	870,828	870,828
Interest-bearing bank borrowings	1,758,125	1,758,125
Lease liabilities	94,409	94,409
	<u>6,749,430</u>	<u>6,749,430</u>

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The fair values of the non-current portion of restricted bank deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair values as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2020 were assessed to be insignificant.

As at 31 December 2019 and 2020, the carrying amount of the Group's financial assets and financial liabilities approximate to their fair values.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/E multiple of peers	12.08 to 12.91 (2019: Nil)	10% (2019: Nil) increase/decrease in multiple would result in increase/decrease in fair value by HK\$299,000 (2019: Nil)
		Average P/B multiple of peers	Nil (2019: 1.55 to 1.67)	Nil (2019:10%) increase/decrease in multiple would result in increase/decrease in fair value by Nil (2019:HK\$313,000)
		Discount for lack of marketability	30% (2019: 30%)	10% (2019:10%) increase/decrease in discount would result in decrease/increase in fair value by HK\$128,000 (2019: HK\$134,000)
	Discounted cash flow method	Long term growth rate	3% (2019: 3%)	10% (2019:10%) increase/decrease in growth rate would result in increase/decrease in fair value by HK\$377,000 (2019: HK\$250,000)
		Long term operating margin	41% (2019: 41%)	10% (2019:10%) increase/decrease in operating margin would result in increase/decrease in fair value by HK\$5,321,000 (2019: HK\$6,458,000)
		Weighted average cost of capital (WACC)	20.5% (2019:20.5%)	10% (2019:10%) increase/decrease in growth rate would result in decrease/increase in fair value by HK\$4,088,000 (2019: HK\$3,405,000)
		Discount for lack of marketability	30% (2019: 30%)	10% (2019:10%) increase/decrease in discount would result in decrease/increase in fair value by HK\$1,104,000 (2019: HK\$823,000)
		Discount for lack of control	5% (2019: 5%)	10% (2019:10%) increase/decrease in discount would result in decrease/increase in fair value by HK\$136,000 (2019: HK\$101,000)

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Redeemable preferred shares in a subsidiary	Equity valuation allocation model	Fair value of equity value	NA	5% (2019: Nil) increase/decrease in fair value per share would result in increase/decrease in fair value by HK\$5,595,000 (2019: Nil)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Quoted prices in active markets (level 1) HK\$'000	Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	1,475	-	1,475
Equity investments designated at fair value through other comprehensive income	-	38,563	-	38,563
Equity investments designated at fair value through profit or loss	-	-	30,851	30,851
	<u>-</u>	<u>40,038</u>	<u>30,851</u>	<u>70,889</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)Assets measured at fair value: (continued)

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK\$'000	Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	-	-	13,423	13,423
Equity investments designated at fair value through profit or loss	-	-	28,473	28,473
	-	-	41,896	41,896

As at 31 December 2020, the fair value of the unlisted equity investments at fair value through other comprehensive income was based on transaction price. The fair value of the unlisted equity investments at fair value through profit or loss was based on a market-based valuation technique. The fair values of financial assets at fair value through profit or loss were measured using valuation models and various market observable inputs, including tenor, volatility and spot rate.

As at 31 December 2019, the Group transferred its financial assets at fair value through profit or loss of HK\$33,540,000 from Level 2 to Level 3 fair value hierarchy. As at 31 December 2019, the fair value of the unlisted equity investments at fair value through other comprehensive income/profit or loss was based on a market-based valuation technique.

Liabilities measured at fair value:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK\$'000	Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	-	111,908	111,908

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2020			
Hong Kong dollars	50	(4,161)	-
RMB	50	(156)	-
Hong Kong dollars	(50)	4,161	-
RMB	(50)	156	-
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2019			
Hong Kong dollars	50	(6,426)	-
RMB	50	(1,790)	-
Hong Kong dollars	(50)	6,426	-
RMB	(50)	1,790	-

* Excluding retained profits

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 11.2% (2019: 9.6%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 97.6% (2019: 93.6%) of costs were denominated in the units' functional currencies.

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

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2020			
If Hong Kong dollar weakens against US\$	5	9,020	-
If Hong Kong dollar strengthens against US\$	(5)	(9,020)	-
If Brazil dollar weakens against US\$	5	(13,916)	-
If Brazil dollar strengthens against US\$	(5)	13,916	-
If RMB weakens against US\$	5	12,275	-
If RMB strengthens against US\$	(5)	(12,275)	-
If Hong Kong dollar weakens against AED	5	(16,832)	-
If Hong Kong dollar strengthens against AED	(5)	16,832	-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2019			
If Hong Kong dollar weakens against US\$	5	144,570	-
If Hong Kong dollar strengthens against US\$	(5)	(144,570)	-
If Brazil dollar weakens against US\$	5	(13,984)	-
If Brazil dollar strengthens against US\$	(5)	13,984	-
If RMB weakens against US\$	5	17,346	-
If RMB strengthens against US\$	(5)	(17,346)	-
If Hong Kong dollar weakens against AED	5	7,259	-
If Hong Kong dollar strengthens against AED	(5)	(7,259)	-

* Excluding retained profits

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2020. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	-	-	-	4,679,771	4,679,771
Notes receivable	-	-	-	136,936	136,936
Financial assets included in prepayments, other receivables and other assets	417,620	-	30,874	-	448,494
Restricted bank deposits	160,068	-	-	-	160,068
Cash and cash equivalents	<u>1,716,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,716,786</u>
	<u>2,294,474</u>	<u>-</u>	<u>30,874</u>	<u>4,816,707</u>	<u>7,142,055</u>

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	-	-	-	4,467,343	4,467,343
Notes receivable	-	-	-	160,003	160,003
Financial assets included in prepayments, other receivables and other assets	442,741	-	28,973	-	471,714
Restricted bank deposits	240,711	-	-	-	240,711
Cash and cash equivalents	<u>1,867,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,867,186</u>
	<u>2,550,638</u>	<u>-</u>	<u>28,973</u>	<u>4,627,346</u>	<u>7,206,957</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group has certain concentrations of credit risk as 25% (2019: 36%) and 66% (2019: 80%) of the Group's trade receivables were due from the Group's largest customer and the 5 largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables is disclosed in note 21 to the financial statements.

Liquidity risk

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

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

	On demand HK\$'000	Within 1 year HK\$'000	2020 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	-	147,719	-	147,719
Interest-bearing bank borrowings	369,546	627,733	411,968	-	1,409,247
Trade and bills payables	-	4,030,825	-	-	4,030,825
Financial liabilities included in other payables and accruals	-	599,314	-	-	599,314
Lease liabilities	-	-	96,215	34,414	130,629
	<u>369,546</u>	<u>5,257,872</u>	<u>655,902</u>	<u>34,414</u>	<u>6,317,734</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand HK\$'000	Within 1 year HK\$'000	2019 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	31,469	177,443	1,639,791	113,924	1,962,627
Trade and bills payables	-	4,026,068	-	-	4,026,068
Financial liabilities included in other payables and accruals	-	870,828	-	-	870,828
Lease liabilities	-	-	95,126	12,810	107,936
	<u>31,469</u>	<u>5,074,339</u>	<u>1,734,917</u>	<u>126,734</u>	<u>6,967,459</u>

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2020.

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

	2020 HK\$'000	2019 HK\$'000
Interest-bearing bank borrowings	<u>1,382,473</u>	<u>1,758,125</u>
Total assets	<u>11,325,161</u>	<u>11,177,089</u>
Gearing ratio	<u>12.2%</u>	<u>15.7%</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. 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.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSET		
Investments in subsidiaries	<u>847,837</u>	<u>820,961</u>
CURRENT ASSETS		
Other receivables	377	290
Due from subsidiaries	1,421,555	1,213,840
Cash and cash equivalents	<u>4,149</u>	<u>8,309</u>
Total current assets	<u>1,426,081</u>	<u>1,222,439</u>
CURRENT LIABILITIES		
Due to a subsidiary	488	480,579
Other payables and accruals	<u>91,024</u>	<u>82,059</u>
Total current liabilities	<u>91,512</u>	<u>562,638</u>
NET CURRENT ASSETS	<u>1,334,569</u>	<u>659,801</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,182,406</u>	<u>1,480,762</u>
NON-CURRENT LIABILITY		
Financial guarantee contracts	<u>86,669</u>	<u>82,812</u>
Net assets	<u>2,095,737</u>	<u>1,397,950</u>
EQUITY		
Issued capital	275,060	248,599
Treasury shares	(22,818)	(22,818)
Reserves (note)	<u>1,843,495</u>	<u>1,172,169</u>
Total equity	<u>2,095,737</u>	<u>1,397,950</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Note:

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

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Share-based compensation reserve** HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 December 2018	598,797	373,108	58,710	415	(4,938)	1,026,092
Profit and total comprehensive income for the year	-	-	-	-	62,370	62,370
Share option scheme						
- value of services	-	-	27,622	-	-	27,622
- exercise of share options	116,975	-	(36,098)	-	-	80,877
- transfer of share option reserve upon the forfeiture or expiry of share options	-	-	(803)	-	803	-
Interim 2019 dividend	-	-	-	-	(24,792)	(24,792)
At 31 December 2019 and 1 January 2020	715,772	373,108	49,431	415	33,443	1,172,169
Loss and total comprehensive loss for the year	-	-	-	-	(5,281)	(5,281)
Share option scheme						
- value of services	-	-	23,020	-	-	23,020
- exercise of share options	58,017	-	(15,546)	-	-	42,471
- transfer of share option reserve upon the forfeiture or expiry of share options	-	-	233	-	(233)	-
Final 2019 dividend	-	(4,966)	-	-	(27,929)	(32,895)
Interim 2020 dividend	-	(19,224)	-	-	-	(19,224)
Issue of shares	663,235	-	-	-	-	663,235
At 31 December 2020	1,437,024	348,918	57,138	415	-	1,843,495

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

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 25 March 2021.

Audited Financial Statements

COMBA TELECOM SYSTEMS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

31 December 2021

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 6
AUDITED FINANCIAL STATEMENTS	
Consolidated statement of profit or loss	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9 - 10
Consolidated statement of changes in equity	11 - 12
Consolidated statement of cash flows	13 - 15
Notes to financial statements	16 - 119

Independent auditor's report
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 119, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Inventory provision</i>	
<p>The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services. Since the technology develops rapidly in the telecommunications industry, the Group's inventories are subject to significant risk of obsolescence and significant management's judgements and estimates were involved in determining the provisions against obsolete and slow-moving inventories. We focused on this area because balances of inventories were significant to the Group (12% of total assets) and inventory provision was made based on subjective estimates and was influenced by assumptions concerning future consumption.</p> <p>The Group's disclosures about accounting judgements and estimates relating to and the recognition of inventory provision are included in notes 3 and 6 to the consolidated financial statements.</p>	<p>We evaluated the sales forecasts prepared by management for the purpose of identifying slow-moving and obsolete inventories by checking, on a sample basis, to the sales orders and agreements, and assessing the estimated sales by taking into account the accuracy of previous estimations, the historical evidence supporting underlying assumptions and current market conditions. We also tested, on a sample basis, the accuracy of the inventories ageing report. For the net realizable value of obsolete and slow-moving inventories identified, we checked a sample of recent sales invoices for the value.</p>

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of trade receivables</i>	
<p>Trade receivables comprised 36% of total assets in the consolidated statement of financial position at 31 December 2021.</p> <p>The Group applied a forward-looking expected credit loss model on impairment of trade receivables. This involved judgement as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money.</p> <p>Due to the significance of trade receivables and the related estimation uncertainty, this is considered a key audit matter.</p> <p>Details of the impairment of trade receivables are disclosed in notes 3 and 21 to the consolidated financial statements.</p>	<p>We evaluated management's assessment on impairment of trade receivables by checking, on a sample basis, the ageing analysis and settlements made subsequent to the year-end date. For long-aged receivables, we have assessed the Group's provision by considering historical payment patterns, available information concerning the creditworthiness of the customers and any correspondence with customers on expected settlement dates which we sample tested the settlements for proper execution of such repayment schedules. For balances where a provision for impairment was recognized, we understood the rationale behind management's judgement, considering historical patterns of trading and settlement, current economic conditions and forward-looking information as well as recent communications with the counterparties.</p>

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Goodwill and intangible asset impairment review</i>	
<p>As at 31 December 2021, the Group recorded goodwill and intangible assets of HK\$243 million and HK\$467 million, respectively, as a result of previous acquisitions. Under HKFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company performs its annual impairment test on each cash-generating unit to assess whether the goodwill might be impaired as at 31 December. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 14 to the consolidated financial statements.</p> <p>The accounting policies, significant accounting judgements and estimates and disclosures for goodwill are included in notes 2.4, 3 and 14 to the consolidated financial statements.</p>	<p>We examined the forecasted cash flows of the respective cash generating units which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison with current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also focused on the adequacy of the Group's disclosures of goodwill.</p>

Other information included in the Annual Report

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

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

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

Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



Independent auditor's report (continued)
To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Certified Public Accountants
Hong Kong
24 March 2022

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
REVENUE	5	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	5	193,320	183,442
Research and development expenses	6	(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	7	(43,761)	(69,352)
Share of profit of a joint venture		<u>6,968</u>	<u>1,052</u>
LOSS BEFORE TAX	6	(656,457)	(268,112)
Income tax expense	9	<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	11		
Basic		HK(21.43)cents	HK(7.36)cents
Diluted		<u>HK(21.43)cents</u>	<u>HK(7.36)cents</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
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	(419,601)	(67,651)
Non-controlling interests	<u>(72,849)</u>	<u>(87,057)</u>
	<u>(492,450)</u>	<u>(154,708)</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,347,683	1,357,251
Right-of-use assets	13(a)	216,989	283,745
Goodwill	14	242,773	253,077
Deferred tax assets	15	225,614	213,276
Intangible assets	16	806,267	881,565
Equity investments designated at fair value through other comprehensive income	18	62,813	38,563
Equity investments designated at fair value through profit or loss	18	90,534	30,851
Restricted bank deposits	23	26,195	26,366
Time deposits	23	257,405	-
Investment in a joint venture	17	18,354	11,856
Total non-current assets		<u>3,294,627</u>	<u>3,096,550</u>
CURRENT ASSETS			
Inventories	20	1,356,335	1,275,812
Trade receivables	21	4,129,136	4,130,899
Notes receivable	22	97,109	134,132
Prepayments, other receivables and other assets	19	626,994	835,805
Financial assets at fair value through profit or loss	18	3,102	1,475
Restricted bank deposits	23	107,900	133,702
Time deposits	23	245,148	-
Cash and cash equivalents	23	1,652,228	1,716,786
Total current assets		<u>8,217,952</u>	<u>8,228,611</u>
CURRENT LIABILITIES			
Trade and bills payables	24	4,544,849	4,030,825
Other payables and accruals	25	623,223	844,867
Interest-bearing bank borrowings	26	644,739	972,173
Tax payable		73,527	78,648
Provision for product warranties	27	75,290	74,313
Total current liabilities		<u>5,961,628</u>	<u>6,000,826</u>
NET CURRENT ASSETS		<u>2,256,324</u>	<u>2,227,785</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,550,951</u>	<u>5,324,335</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	800,000	410,300
Deferred tax liabilities	15	164,063	148,501
Lease liabilities	13(b)	60,300	103,592
Redeemable preferred shares in a subsidiary	28	342,771	111,908
Total non-current liabilities		<u>1,367,134</u>	<u>774,301</u>
Net assets		<u>4,183,817</u>	<u>4,550,034</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	277,892	275,060
Treasury shares	29	(22,818)	(22,818)
Reserves	31	3,519,642	3,854,671
		<u>3,774,716</u>	<u>4,106,913</u>
Non-controlling interests		<u>409,101</u>	<u>443,121</u>
Total equity		<u>4,183,817</u>	<u>4,550,034</u>

X Mr. Fok

Fok Tung Ling
DirectorChang Fei Fu
Director

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Notes	Attributable to owners of the parent							Fair value reserve of equity instruments at FVOCI		Retained profits	Total		Non-controlling interests	Total equity
		Issued capital	Treasury shares	Share premium account	Share-based compensation	Capital reserve	Asset revaluation reserve	Statutory reserve	Exchange fluctuation reserve	equity instruments at FVOCI	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		HK\$'000 (note 29)	HK\$'000 (note 29)	HK\$'000 (note 29)	HK\$'000 (note 30)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020		248,599	(22,818)	715,772	49,431	45,480	43,024	211,071	(23,863)	(7,240)	2,201,753	3,461,209	435,808	3,897,017	
Loss for the year		-	-	-	-	-	-	-	-	-	-	-	-	-	
Other comprehensive income for the year:															
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	-	-	17,265	-	17,265	-	-	17,265
Exchange differences related to foreign operations		-	-	-	-	-	-	-	109,188	-	-	109,188	9,962	119,150	
Total comprehensive loss for the year		-	-	-	-	-	-	-	109,188	17,265	(194,104)	(67,651)	(87,057)	(154,708)	
Share option scheme															
- value of services	30(a)	-	-	-	23,020	-	-	-	-	-	-	23,020	-	-	23,020
- exercise of share options	29(a)	3,461	-	58,017	(15,546)	-	-	-	-	-	-	45,932	-	-	45,932
- transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	233	-	-	-	-	-	(233)	-	-	-	-
Share incentive scheme															
- value of services		-	-	-	9,619	-	-	-	-	-	-	9,619	-	-	9,619
Final 2019 dividend		-	-	-	-	-	-	-	-	-	(32,895)	(32,895)	-	-	(32,895)
Interim 2020 dividend		-	-	-	-	-	-	-	-	-	(19,224)	(19,224)	-	-	(19,224)
Capital contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	94,370	-	94,370
Issue of shares	29(b)	23,000	-	663,235	-	-	-	-	-	-	-	686,235	-	-	686,235
Transfer to/from retained profits		-	-	-	-	-	(7,400)	-	-	-	8,068	668	-	-	668
At 31 December 2020		275,060	(22,818)	1,437,024	66,757	45,480	35,624	211,071	85,325	10,025	1,963,365	4,106,913	443,121	4,550,034	

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2021

Attributable to owners of the parent														
		Issued capital HK\$'000 (note 29)	Treasury shares HK\$'000 (note 29)	Share premium account HK\$'000 (note 29)	Share-based compensation reserve HK\$'000 (note 30)	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve of equity instruments at FVOCI HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
	At 1 January 2021	275,060	(22,818)	1,437,024*	66,757*	45,480*	35,624*	211,071*	85,325*	10,025*	1,963,365*	4,106,913	443,121	4,550,034
	Loss for the year	-	-	-	-	-	-	-	-	-	(592,567)	(592,567)	(79,990)	(672,557)
	Other comprehensive income for the year:													
	Gains on property revaluation, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
	Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	35,787	-	-	-	-	35,787	-	35,787
	Exchange differences related to foreign operations	-	-	-	-	-	-	-	120,219	-	-	120,219	7,141	127,360
	Total comprehensive loss for the year	-	-	-	-	-	35,787	-	120,219	16,960	(592,567)	(419,601)	(72,849)	(492,450)
	Share option scheme													
	- value of services	-	-	-	24,578	-	-	-	-	-	-	24,578	-	24,578
	- exercise of share options	2,832	-	47,114	(14,787)	-	-	-	-	-	-	35,159	-	35,159
	- transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	(2,717)	-	-	-	-	-	2,717	-	-	-
	Share incentive scheme													
	- value of services	-	-	-	27,667	-	-	-	-	-	-	27,667	-	27,667
	Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	38,829	38,829
	Transfer to/from retained profits	-	-	-	-	-	(3,015)	-	-	-	3,015	-	-	-
	At 31 December 2021	277,892	(22,818)	1,484,138*	101,498*	45,480*	68,396*	211,071*	205,544*	26,985*	1,376,530*	3,774,716	409,101	4,183,817

* These reserve accounts comprise the consolidated reserves of HK\$3,519,642,000 (2020: HK\$3,854,671,000) in the consolidated statement of financial position.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(656,457)	(268,112)
Adjustments for:			
Interest income	5	(28,685)	(20,134)
Finance costs	7	43,761	69,352
Share of profit of a joint venture	17	(6,968)	(1,052)
Depreciation of property, plant and equipment	6	213,701	203,821
Depreciation of right-of-use assets	6	45,472	38,853
Amortization of intangible assets		203,343	91,304
Equity-settled share option expense	6	24,578	23,020
Gain on disposal of items of property, plant and equipment	5	(7,117)	(5,300)
Awarded share expense	6	27,667	9,619
Loss on fair value change of financial assets at fair value through profit or loss	6	4,154	3,847
Loss on fair value change of redeemable preferred shares in a subsidiary	6	6,509	-
Covid-19-related rent concessions from lessors		(551)	-
Impairment of goodwill	6	10,304	-
Gain on equity investments designated at fair value through profit or loss	5	(27,564)	(590)
		<u>(147,853)</u>	<u>144,628</u>
Increase in inventories		(39,406)	(11,180)
Decrease in trade receivables		134,894	113,169
Decrease in notes receivable		41,346	32,351
Decrease in prepayments, other receivables and other assets		237,872	919
Increase / (Decrease) in trade and bills payables		410,854	(243,273)
Decrease in other payables and accruals		(230,349)	(325,664)
Decrease in provision for product warranties		<u>(1,394)</u>	<u>(3,783)</u>
Cash generated/(used in) from operations		405,964	(292,833)
Mainland China profits tax paid		(24,457)	(22,165)
Overseas profits tax paid		(6,901)	(15,972)
Interest paid on lease liabilities		<u>-</u>	<u>(3,542)</u>
Net cash flows from /(used in) operating activities		<u>374,606</u>	<u>(334,512)</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		28,685	20,134
Purchases of items of property, plant and equipment		(234,646)	(265,641)
Additions to intangible assets		(99,634)	(90,739)
Proceeds from disposal of items of property, plant and equipment		68,961	33,830
Purchase of a shareholding in a joint venture		-	(10,804)
Purchase of financial assets at fair value through profit or loss		(36,090)	(5,321)
Increase in time deposits		(502,553)	-
Decrease in restricted bank deposits		31,132	95,472
Proceeds from disposal of intangible assets		-	7
Net cash flows used in investing activities		<u>(744,145)</u>	<u>(223,062)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		2,318,402	97,373
Repayment of bank loans		(2,260,786)	(495,765)
Principal portion of lease payments		(36,465)	(36,763)
Proceeds from exercise of share options	29	35,159	45,932
Interest and other finance costs paid		(43,761)	(65,810)
Dividend paid		-	(52,119)
Contribution from the non-controlling shareholders		38,829	94,370
Proceeds from issue of shares	29(b)	-	701,500
Share issue expenses	29(b)	-	(15,265)
Issued redeemable preferred shares in a subsidiary	28	<u>216,432</u>	<u>111,908</u>
Net cash flows from financing activities		<u>267,810</u>	<u>385,361</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(101,729)	(172,213)
Cash and cash equivalents at beginning of year		1,716,786	1,867,186
Effect of foreign exchange rate changes, net		<u>37,171</u>	<u>21,813</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>1,652,228</u>	<u>1,716,786</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	1,652,228	1,651,670
Non-pledged time deposits with original maturity of less than three months when acquired	23	<u>-</u>	<u>65,116</u>
Cash and cash equivalents as stated in the consolidated statement of financial position		<u>1,652,228</u>	<u>1,716,786</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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.

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom Systems Investments Limited	British Virgin Islands	US\$100	100	-	Investment holding
Praises Holdings Limited	British Virgin Islands	US\$100	-	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK\$2	-	100	Investment holding and trading of wireless telecommunications network system equipment
Comba Telecom Systems (Guangzhou) Limited 京信通信系統（廣州）有限公司*	PRC/Mainland China	HK\$260,000,000	-	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術（廣州）有限公司*	PRC/Mainland China	HK\$542,000,000	-	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
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 前稱京信通信系統(中國)有限公司)**	PRC/Mainland China	RMB401,676,957	-	79.41	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Software Technology (Guangzhou) Limited 京信軟件科技（廣州）有限公司*	PRC/Mainland China	HK\$11,000,000	-	100	Provision of software technology services
Guangzhou TPcom Wireless Ltd. 廣州泰普無線通信設備有限公司*	PRC/Mainland China	RMB1,000,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Cascade Technology Limited	British Virgin Islands	US\$1	-	100	Investment holding
WaveLab Holdings Limited	Cayman Islands	US\$1,000	-	55	Investment holding
WaveLab, Inc.	Commonwealth of Virginia/United States of America	US\$400,000	-	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated	Commonwealth of Virginia/United States of America	US\$500,000	-	55	Trading of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US\$1	-	55	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司*	PRC/Mainland China	US\$3,400,000	-	55	Manufacture and sale of digital microwave system equipment
WaveLab Limited 波達有限公司	Hong Kong	HK\$1	-	55	Dormant
Comba Telecom Systems International Limited	British Virgin Islands	US\$1	-	100	Investment holding
Comba Telecom Limited	Hong Kong	HK\$2	-	100	Trading of wireless telecommunications network enhancement system equipment and provision of technical support and repairing services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG\$1,000,002	-	100	Provision of marketing services and trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Co., Ltd.	Thailand	THB5,000,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Systems AB	Sweden	SEK100,000	-	100	Provision of marketing services and trading of wireless telecommunications network system equipment
Noblefield International Limited	British Virgin Islands	US\$1	-	79.41	Investment holding
Comba Telecom Inc.	State of Delaware/United States of America	US\$1	-	79.41	Trading of wireless telecommunications network system equipment
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	BRL188,695,129	-	100	Production and assembling and trading of wireless telecommunications network system equipment
Comba Telecom India Private Limited	India	INR500,000	-	100	Trading of wireless telecommunications network system equipment
Comba Telecom Macau Limited 京信通信澳門有限公司	Macau	MOP100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
PT. Comba Telecom	Indonesia	US\$100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom & Sistemas de México, S.A. de C.V.	Mexico	MXN50,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	MXN50,000	-	100	Provision of general and engineering services

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Comba Telecom, S.L.U.	Spain	EUR100,000	-	79.41	Trading of wireless telecommunications network system equipment
Comba Technologies Sdn. Bhd.	Malaysia	RM350,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecomunicaciones del Peru S.A.C.	Peru	PEN100,000	-	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Jiafu Investments Limited 迦福投資有限公司	British Virgin Islands	US\$100	-	100	Investment holding
Jiafu Holdings Limited 迦福控股有限公司	Hong Kong	HK\$10,000	-	100	Investment holding
ETL Company Limited	Lao People's Democratic Republic	LAK637,763,000,000	-	51	Provision of operator telecommunication services and their value-added services
Rivera Power Limited	British Virgin Islands	US\$1	-	79.41	Investment holding
Comba Telecom Network Systems Limited 京信通信網絡系統有限公司	Hong Kong	HK\$1	-	79.41	Trading of wireless telecommunications network system equipment
ScanViS Limited	Hong Kong	HK\$1	-	79.41	Provision of hardware and software total solutions and services
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.1")	PRC/Mainland China	RMB10,900,000	-	0.09	Investment holding
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.2")	PRC/Mainland China	RMB23,850,000	-	16.14	Investment holding

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable		Principal activities
			to the Company Direct	Indirect	
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.3")	PRC/Mainland China	RMB19,220,000	-	0.16	Investment holding
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）*** ("Xin Han Tong No.5")	PRC/Mainland China	RMB11,900,000	-	0.67	Investment holding
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）*** ("Xin Han Tong No.6")	PRC/Mainland China	RMB12,380,000	-	2.83	Investment holding
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）*** ("Xin Han Tong No.7")	PRC/Mainland China	RMB13,200,000	-	20.08	Investment holding
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）*** ("Xin Han Tong No.8")	PRC/Mainland China	RMB20,650,000	-	18.89	Investment holding
Xin Han Tong No.9 Enterprise Management (Zhuhai) Partnership (Limited Partnership) 鑫瀚通九號企業管理（珠海） 合夥企業（有限合夥）*** ("Xin Han Tong No.9")	PRC/Mainland China	RMB20,650,000	-	0.63	Investment holding

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

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

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xin Han Tong No.10 Enterprise Management (Zhuhai) Partnership (Limited Partnership) 鑫瀚通十號企業管理（珠海） 合夥企業（有限合夥）*** ("Xin Han Tong No.10")	PRC/Mainland China	RMB5,330,000	-	0.56	Investment holding
Xin Han Tong No.11 Enterprise Management (Zhuhai) Partnership (Limited Partnership) 鑫瀚通十一號企業管理（珠海） 合夥企業（有限合夥）*** ("Xin Han Tong No.11")	PRC/Mainland China	RMB5,280,000	-	2.46	Investment holding
Xin Han Tong No.12 Enterprise Management (Zhuhai) Partnership (Limited Partnership) 鑫瀚通十二號企業管理（珠海） 合夥企業（有限合夥）*** ("Xin Han Tong No.12")	PRC/Mainland China	RMB4,640,000	-	0.65	Investment holding

Note:

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

** This is a joint stock company limited by shares under PRC law.

*** These are limited partnerships registered under PRC law, accounted for as subsidiaries of the Group even though the Group has less than 50% equity interest in these companies based on the factors explained in note 3 to the consolidated financial statements.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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, 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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 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 Framework</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{2,4}
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ²
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ²
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ²
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
Amendments to HKAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i> ¹
<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

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise a deferred tax asset and a deferred tax liability for deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained profits at the beginning of the earliest comparative period presented.

31 December 2021

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

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

Impairment of non-financial assets

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

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

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

Freehold land	Not depreciated
Buildings	4.5%
Staff quarters	4.5%
Plant and machinery	9%-20%
Furniture, fixtures and office equipment	10%-30%
Motor vehicles	18%-20%

Buildings are stated at valuation less accumulated depreciation and any impairment losses except for staff quarters. Staff quarters are stated at cost less accumulated depreciation and any impairment losses.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Intangible assets (other than goodwill)

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

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

Computer software and technology

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

Golf club membership

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

Operating license

Operating license is stated at cost less any impairment loss and is amortized on the straight-line basis over its estimated useful life of 25 years.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development expenses

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

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Buildings	More than 1 to 10 years
Telecom towers and other equipment	More than 1 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in lease liabilities and other payables and accruals.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due, except for certain customers which are granted with a longer credit term. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables, derivative financial instruments, interest-bearing bank and other borrowings and redeemable preferred shares in a subsidiary.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities. The Group has designated its redeemable preferred shares in a subsidiary as financial liabilities at fair value through profit or loss.

Financial liabilities at amortized cost (loans and borrowings)

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods and related installation

Revenue from the sale of goods and related installation is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods and related installation.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) Operator telecommunication services

Revenue is measured at the transaction price which is the amount of consideration to which the Group entitled in exchange for transferring promised services to the customer. For offerings which included the provision of multiple performance obligations, such as telecommunications services (such as voice and data services), telecommunication related products (such as handsets), customer point rewards and/or other promotional goods/services, the Group allocates the transaction price received/receivable from customers to each performance obligation based on the relative stand-alone selling prices.

Revenue for each performance obligation is then recognized when the Group satisfies the performance obligation by transferring the promised services to a customer. Revenue is recognized when the customer obtains the control of the telecommunications services over the time of provision of the services. Revenue from the sale of telecommunication related products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(c) Technical support and maintenance services

Revenue from the technical support and maintenance services is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

Other income

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

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

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

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

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

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies(continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Revenue recognition

Performance obligation at a point in time

For performance obligations of the Group such as the sale of goods and related installation are not distinct from each other, as: (a) the customer is unable to receive and consume the benefits provided by the Group's performance; (b) the Group's performance does not create or enhance an asset (e.g., work in progress) that the customer controls as the asset is created or enhanced; and (c) the Group does not have an enforceable right to payment for performance completed to date. Hence, such performance obligations are satisfied at a point in time. Specifically, revenue of those performance obligations is recognised upon acceptance by the customers after the respective performance obligations are satisfied.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Recognition of a deferred tax liability for withholding taxes

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

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group considers that it controls Xin Han Tong No.1, Xin Han Tong No.2, Xin Han Tong No.3, Xin Han Tong No.5, Xin Han Tong No.6, Xin Han Tong No.7, Xin Han Tong No.8, Xin Han Tong No.9, Xin Han Tong No.10, Xin Han Tong No.11 and Xin Han Tong No.12 Partnership even though it owns less than 50% of the voting rights. This is because the Group is the only general partner which can control the investment management or other activities of these partnerships. For details, please refer to note 30(c) to the financial statements.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was HK\$242,773,000 (2020: HK\$253,077,000). Further details are given in note 14.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates and time value. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses at 31 December 2021 was HK\$195,727,000 (2020: HK\$174,379,000). The amount of unrecognized tax losses at 31 December 2021 was HK\$516,021,000 (2020: HK\$401,943,000). Further details are contained in note 15 to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories at the end of each reporting period and makes provisions against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use based on sales forecasts. Such sales forecasts are prepared based on agreements or orders on hand and estimated sales in the foreseeable future based on historical experiences with its customers and current market conditions of telecommunications industry. Management estimates the net realizable value for those obsolete and slow-moving inventories based primarily on the latest invoice prices and current market conditions. The estimation is reassessed at the end of each reporting period. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognized in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2021 was HK\$1,356,335,000 (2020: HK\$1,275,812,000). For the breakdown, please refer to note 20 to the financial statements. During the year ended 31 December 2021, a write-down of inventories of HK\$231,617,000 (2020: HK\$84,427,000) was recognized in the consolidated statement of profit or loss (note 6).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 37 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The fair value of the unlisted equity investments at 31 December 2021 was HK\$153,347,000 (2020: HK\$69,414,000). Further details are included in note 18 to the financial statements.

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development expenses in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2021, the best estimate of the carrying amount of capitalized development costs was HK\$295,465,000 (2020: HK\$360,156,000). For details, please refer to note 16 to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. 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 HK\$'000	Operator telecommunication services HK\$'000	Total HK\$'000
Revenue	5,658,244	211,422	5,869,666
Loss before tax	(460,555)	(195,902)	(656,457)
Segment assets Elimination	10,762,215	1,546,954	12,309,169 (796,590)
Total assets			<u>11,512,579</u>
Segment liabilities Elimination	7,138,576	986,776	8,125,352 (796,590)
Total liabilities			<u>7,328,762</u>
Year ended 31 December 2020	Wireless telecommunications network system equipment and services HK\$'000	Operator telecommunication services HK\$'000	Total HK\$'000
Revenue	4,890,140	167,100	5,057,240
Loss before tax	(38,793)	(229,319)	(268,112)
Segment assets Elimination	10,424,674	1,841,353	12,266,027 (940,866)
Total assets			<u>11,325,161</u>
Segment liabilities Elimination	6,620,041	1,095,952	7,715,993 (940,866)
Total liabilities			<u>6,775,127</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2021 HK\$'000	2020 HK\$'000
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 HK\$'000	2020 HK\$'000
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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

	2021 HK\$'000	2020 HK\$'000
<u>Other income and gains</u>		
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 item 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 for 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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

6. LOSS BEFORE TAX

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

	Notes	2021 HK\$'000	2020 HK\$'000
Cost of inventories sold and services provided		4,195,798	3,511,731
Depreciation of property, plant and equipment ^{##}	12	213,701	203,821
Depreciation of right-of-use assets	13	45,472	38,853
Amortization of computer software and technology and operating license ^{##}	16	30,946	31,690
Research and development expenses:			
Deferred expenditure amortized	16	172,397	59,614
Current year expenditure		436,543	411,441
		<u>608,940</u>	<u>471,055</u>
Lease payments not included in the measurement of lease liabilities	13	12,778	12,717
Auditor's remuneration		3,571	4,461
Employee benefit expense (including directors' remuneration, note 8)^:			
Salaries and wages		1,055,182	1,037,158
Staff welfare expenses		44,373	45,989
Equity-settled share option expense	30(a)	24,578	23,020
Awarded share expenses	30(c)	27,667	9,619
Pension scheme contributions (defined contribution schemes)*		70,013	41,057
		<u>1,221,813</u>	<u>1,156,843</u>
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 ^{###}	21,22	257,317	81,465
Provision for product warranties	27	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 ^{###}	14	10,304	-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

6. LOSS BEFORE TAX (continued)

- * 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.

7. FINANCE COSTS

	2021 HK\$'000	2020 HK\$'000
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
	<u>43,761</u>	<u>69,352</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES

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

	2021 HK\$'000	2020 HK\$'000
Fees	880	880
Other emoluments:		
Salaries, allowances and benefits in kind	15,336	15,234
Performance related bonuses	5,692	14,259
Equity-settled share option expense	7,249	7,358
Share based payment expense	3,331	1,603
Pension scheme contributions	215	192
	31,823	38,646
	32,703	39,526

(a) Executive directors, non-executive director and independent non-executive directors

2021	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Share based payment expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:							
Mr. Fok Tung Ling	-	2,149	-	-	-	11	2,160
Mr. Zhang Yue Jun	-	943	-	-	-	18	961
Mr. Xu Huijun	-	3,470	1,261	3,090	1,037	59	8,917
Mr. Chang Fei Fu	-	3,436	1,200	1,126	498	18	6,278
Mr. Bu Binlong	-	1,435	961	1,154	498	77	4,125
Ms. Huo Xinru	-	2,488	1,321	1,121	498	18	5,446
	-	13,921	4,743	6,491	2,531	201	27,887
Non-executive director:							
Mr. Wu Tielong	-	1,415	949	672	800	14	3,850
Independent non-executive directors:							
Mr. Lau Siu Ki, Kevin	220	-	-	30	-	-	250
Dr. Lin Jin Tong	220	-	-	32	-	-	252
Ms. Ng Yi Kum	220	-	-	24	-	-	244
Ms. Wong Lok Lam	220	-	-	-	-	-	220
	880	-	-	86	-	-	966
	880	15,336	5,692	7,249	3,331	215	32,703

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(a) Executive directors, non-executive director and independent non-executive directors (continued)

2020	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Share based payment expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:							
Mr. Fok Tung Ling	-	2,075	875	-	-	18	2,968
Mr. Zhang Yue Jun	-	943	656	-	-	18	1,617
Mr. Xu Huijun	-	3,509	5,766	2,394	533	46	12,248
Mr. Chang Fei Fu	-	3,436	1,324	1,251	255	18	6,284
Mr. Bu Binlong	-	1,413	2,064	1,258	255	64	5,054
Ms. Huo Xinru	-	2,488	1,985	1,090	255	18	5,836
	-	13,864	12,670	5,993	1,298	182	34,007
Non-executive director:							
Mr. Wu Tielong	-	1,370	1,589	1,205	305	10	4,479
Independent non-executive directors:							
Mr. Lau Siu Ki, Kevin	220	-	-	60	-	-	280
Dr. Lin Jin Tong	220	-	-	60	-	-	280
Ms. Ng Yi Kum	220	-	-	40	-	-	260
Ms. Wong Lok Lam (appointed on 24 Nov 2020)	23	-	-	-	-	-	23
Ms. Leung Hoi Wai (resigned on 24 Nov 2020)	197	-	-	-	-	-	197
	880	-	-	160	-	-	1,040
	880	15,234	14,259	7,358	1,603	192	39,526

Certain executive directors of the Company are entitled to bonus payments which are determined by reference to the Group's last year performance.

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

(b) 5 highest paid employees

The 5 highest paid employees during the year included 5 directors (2020: 5 directors), details of whose remuneration are set out in note 8(a) above.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

9. 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 HK\$'000	2020 HK\$'000
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	<u>(3,812)</u>	<u>(5,835)</u>
Total tax charge for the year	<u>16,100</u>	<u>23,011</u>

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.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

9. INCOME TAX (continued)

	2021 HK\$'000	% ¹	2020 HK\$'000	% ¹
Loss before tax	<u>(656,457)</u>		<u>(268,112)</u>	
Tax at the applicable tax rate	(46,614)	(7.10)	(6,649)	(2.48)
Adjustments in respect of current tax of previous years	51	0.01	(5,025)	(1.87)
Income not subject to tax	(2,605)	(0.40)	(2,335)	(0.87)
Expenses not deductible for tax	18,140	2.76	11,530	4.30
Additional deductible research and development expenses	(93,114)	(14.18)	(49,928)	(18.62)
Tax losses utilized from previous years	(10,570)	(1.61)	(13,572)	(5.06)
Effect on opening deferred tax of decrease in rates	-	-	4,514	1.68
Tax losses not recognized	<u>150,812</u>	<u>22.97</u>	<u>84,476</u>	<u>31.50</u>
Tax charge at the Group's effective rate	<u>16,100</u>	<u>2.45</u>	<u>23,011</u>	<u>8.58</u>

The Group has tax losses arising in Hong Kong and other jurisdictions of HK\$516,021,000 (2020: HK\$401,943,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognized deferred tax assets at 31 December 2021.

10. DIVIDENDS

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

11. 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 HK\$'000	2020 HK\$'000
<u>Loss</u>		
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
<u>Shares</u>		
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>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Staff quarters HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2021							
At 31 December 2020 and 1 January 2021:							
Cost or valuation	733,341	-	2,832,459	275,079	52,482	94,449	3,987,810
Accumulated depreciation	(266,653)	-	(2,082,521)	(234,673)	(46,712)	-	(2,630,559)
Net carrying amount	<u>466,688</u>	<u>-</u>	<u>749,938</u>	<u>40,406</u>	<u>5,770</u>	<u>94,449</u>	<u>1,357,251</u>
At 1 January 2021, net of accumulated depreciation	466,688	-	749,938	40,406	5,770	94,449	1,357,251
Additions	13,374	-	185,639	6,287	6,291	51,319	262,910
Transfer	(9,785)	85,510	66,578	-	-	(142,303)	-
Revaluation surplus	47,924	-	-	-	-	-	47,924
Disposals	(16,583)	-	(41,161)	(2,196)	(1,904)	-	(61,844)
Depreciation provided during the year	(37,638)	(321)	(170,554)	(2,472)	(2,716)	-	(213,701)
Exchange realignment	<u>2,233</u>	<u>198</u>	<u>(47,689)</u>	<u>525</u>	<u>(597)</u>	<u>473</u>	<u>(44,857)</u>
At 31 December 2021, net of accumulated depreciation	<u>466,213</u>	<u>85,387</u>	<u>742,751</u>	<u>42,550</u>	<u>6,844</u>	<u>3,938</u>	<u>1,347,683</u>
At 31 December 2021:							
Cost or valuation	765,484	85,708	2,662,339	250,506	41,045	3,938	3,809,020
Accumulated depreciation	(299,271)	(321)	(1,919,588)	(207,956)	(34,201)	-	(2,461,337)
Net carrying amount	<u>466,213</u>	<u>85,387</u>	<u>742,751</u>	<u>42,550</u>	<u>6,844</u>	<u>3,938</u>	<u>1,347,683</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2020						
At 31 December 2019 and 1 January 2020:						
Cost or valuation	702,021	2,788,421	269,300	59,645	-	3,819,387
Accumulated depreciation	(221,321)	(1,995,081)	(231,787)	(50,905)	-	(2,499,094)
Net carrying amount	<u>480,700</u>	<u>793,340</u>	<u>37,513</u>	<u>8,740</u>	<u>-</u>	<u>1,320,293</u>
At 1 January 2020, net of accumulated depreciation	480,700	793,340	37,513	8,740	-	1,320,293
Additions	16,632	118,404	14,430	3,206	92,969	245,641
Disposals	(8,056)	(8,811)	(8,071)	(3,592)	-	(28,530)
Depreciation provided during the year	(34,692)	(161,704)	(4,844)	(2,581)	-	(203,821)
Exchange realignment	<u>12,104</u>	<u>8,709</u>	<u>1,378</u>	<u>(3)</u>	<u>1,480</u>	<u>23,668</u>
At 31 December 2020, net of accumulated depreciation	<u>466,688</u>	<u>749,938</u>	<u>40,406</u>	<u>5,770</u>	<u>94,449</u>	<u>1,357,251</u>
At 31 December 2020:						
Cost or valuation	733,341	2,832,459	275,079	52,482	94,449	3,987,810
Accumulated depreciation	(266,653)	(2,082,521)	(234,673)	(46,712)	-	(2,630,559)
Net carrying amount	<u>466,688</u>	<u>749,938</u>	<u>40,406</u>	<u>5,770</u>	<u>94,449</u>	<u>1,357,251</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of prepaid land lease payment, buildings, and other equipment. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 and 10 years, while other equipment generally has lease terms between 1 and 10 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land HK\$'000	Buildings HK\$'000	Telecom towers and other equipment HK\$'000	Total HK\$'000
As at 1 January 2021	119,770	120,901	43,074	283,745
Additions	-	36,908	-	36,908
Depreciation charge	(2,900)	(39,369)	(3,203)	(45,472)
Revision of a lease term arising from a change	-	(43,563)	(13,047)	(56,610)
Exchange realignment	3,427	(5,009)	-	(1,582)
As at 31 December 2021	<u>120,297</u>	<u>69,868</u>	<u>26,824</u>	<u>216,989</u>

	Leasehold land HK\$'000	Buildings HK\$'000	Telecom towers and other equipment HK\$'000	Total HK\$'000
As at 1 January 2020	115,976	131,881	5,404	253,261
Additions	-	23,040	42,681	65,721
Depreciation charge	(2,918)	(33,810)	(2,125)	(38,853)
Revision of a lease term arising from a change	-	(508)	(1,507)	(2,015)
Exchange realignment	6,712	298	(1,379)	5,631
As at 31 December 2020	<u>119,770</u>	<u>120,901</u>	<u>43,074</u>	<u>283,745</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under lease liabilities and other payables and accruals) and the movements during the year are as follows:

	2021 HK\$'000	2020 HK\$'000
Carrying amount at 1 January	157,623	137,667
New leases	35,541	65,389
Accretion of interest recognized during the year	3,264	3,542
COVID-19-related rent concessions from lessors	(551)	(1,864)
Payments	(39,729)	(40,305)
Revision of a lease term arising from a change	(57,384)	(2,397)
Exchange realignment	(4,385)	(4,409)
Carrying amount at 31 December	<u>94,379</u>	<u>157,623</u>
Analyzed into:		
Current portion	34,079	54,031
Non-current portion	<u>60,300</u>	<u>103,592</u>

(c) The amounts recognized in profit or loss in relation to leases are as follows:

	2021 HK\$'000	2020 HK\$'000
Interest on lease liabilities	3,264	3,542
Depreciation charge of right-of-use assets	45,472	38,853
Expense relating to short-term leases or of low-value assets	12,778	12,717
COVID-19-related rent concessions from lessors	(551)	(1,864)
Total amount recognized in profit or loss	<u>60,963</u>	<u>53,248</u>

(d) The total cash outflow for leases is disclosed in note 32(b) to the financial statements.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. LEASES (continued)

The Group as a lessor

The Group leases certain of its properties under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognized by the Group during the year was HK\$14,004,000 (2020: HK\$9,671,000), details of which are included in note 5 to the financial statements.

As at 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 HK\$'000	2020 HK\$'000
Within 1 year	9,757	7,213
After 1 year but within 2 years	7,663	5,463
After 2 years but within 3 years	4,782	2,894
After 3 years but within 4 years	2,102	2,772
After 4 years but within 5 years	2,091	2,150
After 5 years	-	2,748
	<u>26,395</u>	<u>23,240</u>

14. GOODWILL

At 31 December 2020:	HK\$'000
Cost and net carrying amount	<u>253,077</u>
Cost at 1 January 2021, net of accumulated impairment	253,077
Impairment during the year	<u>(10,304)</u>
Cost and net carrying amount at 31 December 2021	<u>242,773</u>
At 31 December 2021:	
Cost	253,077
Accumulated impairment	<u>(10,304)</u>
Net carrying amount	<u>242,773</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Wireless telecommunications equipment CGU; and
- Provision of operator telecommunication services and their value added services CGU.

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least a 5-year period approved by management. The discount rate applied to the cash flow projections is approximately from 15% to 17% (2020: 15% to 17%), and cash flows beyond the 5-year period were extrapolated using a growth rate of 2.0% to 3.0% (2020: 2.0% to 3.0%), which was represented by expected long term CPI growth rate.

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

15. DEFERRED TAX

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

Deferred tax assets

	Unrealized profit HK\$'000	Accruals HK\$'000	Products warranty HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 January 2020	15,465	12,904	20,829	154,866	204,064
Deferred tax (charged)/credited to the statement of profit or loss during the year	(7,830)	209	(4,986)	9,442	(3,165)
Exchange realignment	496	807	1,003	10,071	12,377
At 31 December 2020	8,131	13,920	16,846	174,379	213,276
Deferred tax (charged)/credited to the statement of profit or loss during the year	(3,627)	(570)	(5,888)	15,459	5,374
Exchange realignment	194	441	440	5,889	6,964
At 31 December 2021	4,698	13,791	11,398	195,727	225,614

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. DEFERRED TAX (continued)

Deferred tax liabilities

	Revaluation of properties HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Fair value adjustments for equity investments designated at fair value HK\$'000	Total HK\$'000
At 1 January 2020	7,556	137,848	7,011	152,415
Deferred tax changed/(credited) to the statement of profit or loss during the year	(635)	(7,552)	(814)	(9,001)
Deferred tax credited to equity statement during the year	(668)	-	5,755	5,087
At 31 December 2020	6,253	130,296	11,952	148,501
Deferred tax charged/(credited) to the statement of profit or loss during the year	3,263	(7,554)	5,853	1,562
Deferred tax credited to equity statement during the year	8,347	-	5,653	14,000
At 31 December 2021	17,863	122,742	23,458	164,063

At 31 December 2021, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately HK\$1,966,476,000 at 31 December 2021 (2020: HK\$2,071,067,000).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

16. INTANGIBLE ASSETS

	Operating license HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
31 December 2021					
Cost at 1 January 2021, net of accumulated amortization	489,850	30,445	1,114	360,156	881,565
Additions	-	19,107	-	97,442	116,549
Disposals	-	(2)	-	-	(2)
Amortization provided during the year	(23,322)	(7,624)	-	(172,397)	(203,343)
Exchange realignment	-	1,234	-	10,264	11,498
At 31 December 2021, net of accumulated amortization	<u>466,528</u>	<u>43,160</u>	<u>1,114</u>	<u>295,465</u>	<u>806,267</u>
At 31 December 2021: Cost	569,533	199,680	1,114	961,082	1,731,409
Accumulated amortization	<u>(103,005)</u>	<u>(156,520)</u>	<u>-</u>	<u>(665,617)</u>	<u>(925,142)</u>
Net carrying amount	<u>466,528</u>	<u>43,160</u>	<u>1,114</u>	<u>295,465</u>	<u>806,267</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

16. INTANGIBLE ASSETS (continued)

	Operating license HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
31 December 2020					
Cost at 1 January 2020, net of accumulated amortization	513,172	22,099	1,114	323,468	859,853
Additions	-	15,257	-	75,482	90,739
Disposals	-	(7)	-	-	(7)
Amortization provided during the year	(23,322)	(8,368)	-	(59,614)	(91,304)
Exchange realignment	-	1,464	-	20,820	22,284
At 31 December 2020, net of accumulated amortization	<u>489,850</u>	<u>30,445</u>	<u>1,114</u>	<u>360,156</u>	<u>881,565</u>
At 31 December 2020:					
Cost	569,533	138,165	1,114	863,639	1,572,451
Accumulated amortization	<u>(79,683)</u>	<u>(107,720)</u>	<u>-</u>	<u>(503,483)</u>	<u>(690,886)</u>
Net carrying amount	<u>489,850</u>	<u>30,445</u>	<u>1,114</u>	<u>360,156</u>	<u>881,565</u>

17. INVESTMENT IN A JOINT VENTURE

	2021 HK\$'000	2020 HK\$'000
Share of net assets	16,821	10,323
Goodwill on acquisition	1,533	1,533
	<u>18,354</u>	<u>11,856</u>

Particulars of the Group's material joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
CLB ELEKTRONİK ELEKTRİK İLETİŞİM ÜRETİM ARAŞTIRMA GELİŞTİRME MÜHENDİSLİK SANAYİ VE TİCARET ANONİM ŞİRKETİ	Registered capital of TRY1 each	Turkey	50	50	50	Manufacture and sale of electronic products

The above investment is indirectly held by the Company.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. INVESTMENT IN A JOINT VENTURE (continued)

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

	2021 HK\$'000	2020 HK\$'000
Share of the joint venture's profit for the year	6,968	1,052
Share of the joint venture's total comprehensive income	6,968	1,052
Carrying amount of the Group's investment in the joint venture	<u>18,354</u>	<u>11,856</u>

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK\$'000	2020 HK\$'000
Equity investments designated at fair value through other comprehensive income:		
Unlisted equity investments, at fair value		
极芯通讯技术南京有限公司	53,241	28,970
深圳市汇芯通信技术有限公司	<u>9,572</u>	<u>9,593</u>
	<u>62,813</u>	<u>38,563</u>
Equity investments designated at fair value through profit or loss:		
Unlisted equity investments, at fair value		
北京奕斯伟计算技术有限公司 (原“北京奕斯伟信息技术有限公司”)	55,792	27,733
佛山臻智微芯科技有限公司	30,644	-
通号粤港澳(广州)交通科技有限公司	<u>4,098</u>	<u>3,118</u>
	<u>90,534</u>	<u>30,851</u>
Financial assets at fair value through profit or loss:		
Forward currency contracts	<u>3,102</u>	<u>1,475</u>

The equity investments of 极芯通讯技术南京有限公司 and 深圳市汇芯通信技术有限公司 were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The equity investments of 北京奕斯伟计算技术有限公司 (原 “北京奕斯伟信息技术有限公司”), 佛山臻智微芯科技有限公司, and 通号粤港澳 (广州) 交通科技有限公司 were classified as equity investments designated at fair value through profit or loss as they were held for trading.

These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 HK\$'000	2020 HK\$'000
Prepayments	324,722	421,304
Deposits	196,282	168,126
Other receivables	139,432	280,368
	<u>660,436</u>	<u>869,798</u>
Impairment allowance	<u>(33,442)</u>	<u>(33,993)</u>
	<u>626,994</u>	<u>835,805</u>

Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers. As at 31 December 2021, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2021 was 0.10% to 10.00% and 100% for stage 1 and stage 3 respectively (2020: 0.10% to 10.00% and 100% for stage 1 and stage 3).

20. INVENTORIES

	2021 HK\$'000	2020 HK\$'000
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>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. TRADE RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Trade receivables	4,852,632	4,679,771
Impairment	<u>(723,496)</u>	<u>(548,872)</u>
	<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 HK\$'000	2020 HK\$'000
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	<u>1,571,782</u>	<u>1,956,150</u>
	4,852,632	4,679,771
Provision for impairment	<u>(723,496)</u>	<u>(548,872)</u>
	<u>4,129,136</u>	<u>4,130,899</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. TRADE RECEIVABLES (continued)

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

	2021 HK\$'000	2020 HK\$'000
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
At end of year	<u>723,496</u>	<u>548,872</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on groupings of various customer segments with similar loss patterns (i.e., geography, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty or there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2021		Past due			
	Current	Less than 1 year	1-2 years	Over 2 years	Total
Expected credit loss rate	1.67%	6.75%	16.84%	72.33%	
Gross carrying amount (HK\$'000)	3,320,692	349,435	379,761	802,744	4,852,632
Expected credit losses (HK\$'000)	55,302	23,583	63,956	580,655	723,496
As at 31 December 2020		Past due			
	Current	Less than 1 year	1-2 years	Over 2 years	Total
Expected credit loss rate	1.55%	2.35%	14.82%	55.80%	
Gross carrying amount (HK\$'000)	2,748,975	794,891	356,643	779,262	4,679,771
Expected credit losses (HK\$'000)	42,504	18,664	52,837	434,867	548,872

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

22. NOTES RECEIVABLE

	2021 HK\$'000	2020 HK\$'000
Notes receivable	102,077	136,936
Impairment	<u>(4,968)</u>	<u>(2,804)</u>
	<u>97,109</u>	<u>134,132</u>

At 31 December 2021 and 31 December 2020, none of the notes receivable were endorsed.

All notes receivable of the Group would mature within 12 months.

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2021 HK\$'000	2020 HK\$'000
Cash and bank balances	1,652,228	1,651,670
Restricted bank deposits	134,095	160,068
Time deposits	<u>502,553</u>	<u>65,116</u>
	2,288,876	1,876,854
Less:		
Restricted bank deposits for bills payable	(55,875)	(17,356)
Restricted bank deposits for performance bonds	(78,220)	(142,712)
Time deposits with original maturity of over three months:		
-non-current	(257,405)	-
-current	<u>(245,148)</u>	<u>-</u>
Cash and cash equivalents	<u>1,652,228</u>	<u>1,716,786</u>

	2021 HK\$'000	2020 HK\$'000
Cash and cash equivalents and time deposits		
Denominated in		
-RMB	1,885,422	1,464,465
-USD	181,766	167,042
-HKD	26,906	155,008
-Others	<u>194,782</u>	<u>90,339</u>
	<u>2,288,876</u>	<u>1,876,854</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

24. TRADE AND BILLS PAYABLES

An 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 HK\$'000	2020 HK\$'000
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.

25. OTHER PAYABLES AND ACCRUALS

	2021 HK\$'000	2020 HK\$'000
Accruals	237,675	194,095
Contract liabilities	96,402	99,801
Lease liabilities	34,079	54,031
Other payables	255,067	496,940
	<u>623,223</u>	<u>844,867</u>

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. INTEREST-BEARING BANK BORROWINGS

	2021		2020	
	Maturity	HK\$'000	Maturity	HK\$'000
Current				
Bank loans – guaranteed	2022	<u>644,739</u>	2021	<u>972,173</u>
Non-current				
Bank loans – guaranteed	2023-2024	<u>800,000</u>	2022	<u>410,300</u>
		<u>1,444,739</u>		<u>1,382,473</u>
Analysed 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		<u>640,000</u>		<u>-</u>
		<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 (note 37).

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 rates 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.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

27. PROVISION FOR PRODUCT WARRANTIES

	2021 HK\$'000	2020 HK\$'000
At 1 January	74,313	73,764
Additional provision	20,358	24,427
Amounts utilized during the year	(21,752)	(28,210)
Exchange realignment	2,371	4,332
At 31 December	<u>75,290</u>	<u>74,313</u>

The Group generally provides warranties of 1 to 2 years to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for product warranties were not discounted as the effect of discounting was not material.

28. REDEEMABLE PREFERRED SHARES IN A SUBSIDIARY

	2021 HK\$'000	2020 HK\$'000
Redeemable preferred shares in a subsidiary	<u>342,771</u>	<u>111,908</u>

On 22 December 2020, Comba Network Systems Company Limited ("Comba Network") issued 16,586,416 shares to an investor, which represented 4.5% of the enlarged equity interest in Comba Network for the consideration of HK\$111,908,000.

On 17 June 2021, Comba Network issued 19,166,409 shares to two investors, which represented 4.86% of the enlarged equity interest in Comba Network for the consideration of HK\$156,296,000.

On 22 July 2021, Comba Network issued 7,371,696 shares to two investors, which represented 1.84% of the enlarged equity interest in Comba Network for the consideration of HK\$60,136,000.

The key terms of the preferred shares in a subsidiary are summarised as follows:

(a) Liquidation preference

In the event of any liquidation event (including customarily-deemed-liquidation events such as acquisition), the holders of the preferred shares in a subsidiary would be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to the per share purchase price plus a pre-determined simple interest rate and any declared but unpaid dividends (the "Preference Amount"), proportionately adjusted for share splits, share dividends, recapitalisations and the like.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. REDEEMABLE PREFERRED SHARES IN A SUBSIDIARY (continued)

The key terms of the preferred shares in a subsidiary are summarised as follows:
(continued)

(b) Redemption rights

If Comba Network fails to consummate a qualified public offering prior to the date of 31 December 2024, at the option of the holder of the preferred shares in a subsidiary, the Group shall redeem all of the outstanding preferred shares in a subsidiary held by the requesting holder, at the price for preferred share issue price and a return at a pre-determined simple interest rate on all accrued but unpaid dividends, proportionally adjusted for share splits, share dividends, recapitalisations and the like. The redemption rights shall be terminated upon the closing of a qualified public offering.

The redeemable preferred shares in a subsidiary were designated as financial liabilities at fair value through profit or loss on initial recognition. At the end of the reporting period subsequent to initial recognition, all redeemable preferred shares in a subsidiary are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

The movements of the preferred shares in a subsidiary are set out below:

	2021 HK\$'000	2020 HK\$'000
At the beginning of the year	111,908	-
Additions	216,432	111,908
Fair value losses	6,509	-
Exchange realignment	7,922	-
At 31 December	<u>342,771</u>	<u>111,908</u>

The Group applied the discounted cash flow method to determine the underlying equity value of the Comba Network and adopted the option-pricing method and equity allocation model to determine the fair value of the redeemable preferred shares in a subsidiary, which were revalued at the end of the reporting period by independent professionally qualified valuers. Key assumptions are set out below:

	31 December 2021	31 December 2020
Discount rate	17%	16%
Risk-free interest rate	2.458%	2.886%
Discount for lack of marketability	20%	20%
Volatility	46.78%	43.94%

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. REDEEMABLE PREFERRED SHARES IN A SUBSIDIARY (continued)

The key terms of the preferred shares in a subsidiary are summarised as follows:
(continued)

The discount rate was estimated by the weighted average cost of capital as of each appraisal date. The Group estimated the risk-free interest rate based on the yield of Chinese Treasury with a maturity life equal to period from the respective appraisal dates to expected liquidation date. Volatility was estimated at the dates of appraisal based on average of historical volatilities of comparable companies in the same industry for a period from the respective appraisal dates to expected liquidation date.

29. SHARE CAPITAL

<u>Shares</u>	2021 HK\$'000	2020 HK\$'000
Authorized:		
5,000,000,000 (2020: 5,000,000,000) ordinary shares of HK\$0.10 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid or credited as fully paid:		
2,778,911,168 (2020: 2,750,593,918) ordinary shares of HK\$0.10 each	<u>277,892</u>	<u>275,060</u>

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

	Notes	Number of shares in issue	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2020		2,485,988,818	248,599	(22,818)	715,772	941,553
Share option scheme						
- exercise of share options	(a)	34,605,100	3,461	-	58,017	61,478
Issue of shares	(b)	<u>230,000,000</u>	<u>23,000</u>	<u>-</u>	<u>663,235</u>	<u>686,235</u>
At 31 December 2020 and 1 January 2021		2,750,593,918	275,060	(22,818)	1,437,024	1,689,266
Share option scheme						
- exercise of share options	(c)	<u>28,317,250</u>	<u>2,832</u>	<u>-</u>	<u>47,114</u>	<u>49,946</u>
At 31 December 2021		<u>2,778,911,168</u>	<u>277,892</u>	<u>(22,818)</u>	<u>1,484,138</u>	<u>1,739,212</u>

As at 31 December 2021, the total number of issued ordinary shares of the Company was 2,778,911,168 (2020: 2,750,593,918) shares which included 16,637,136 (2020: 16,637,136) shares held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 and renewed on 25 March 2021 (note 30(b)).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

29. SHARE CAPITAL (continued)

Notes:

- (a) During the year ended 31 December 2020, the subscription rights attaching to 19,692,600 share options, 9,676,500 share options and 5,236,000 share options were exercised at the exercise prices of HK\$1.255 per share, HK\$1.170 per share and HK\$1.890 per share respectively, resulting in the issue of 34,605,100 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$45,932,000.
- (b) During the year ended 31 December 2020, the Company completed the top-up placing of 282,000,000 shares of HK\$0.10 each at a placing price of HK\$3.05 per share and the subscription of 230,000,000 new shares of HK\$0.10 each at a subscription price of HK\$3.05 each (the "Subscription"). The net proceeds from the Subscription are approximately HK\$686,235,000 (after deducting the related costs and expenses) which would result in the additional share capital of approximately HK\$23,000,000 and share premium of approximately HK\$663,235,000.
- (c) During the year ended 31 December 2021, the subscription rights attaching to 21,648,250 share options, 6,105,500 share options and 563,500 share options were exercised at the adjusted exercise prices of HK\$1.255 per share, HK\$1.170 per share and HK\$1.890 per share respectively, resulting in the issue of 28,317,250 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$35,159,000.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME

(a) Share Option Scheme

The Company operates a share option scheme adopted on 3 June 2013 (the “2013 Scheme”) which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for ten years from that date and will expire on 3 June 2023.

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

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

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

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

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

	2021		2020	
	Weighted average exercise price of each share option HK\$	Number of share options	Weighted average exercise price of each share option HK\$	Number of share options
At 1 January	1.574	138,060,250	1.525	174,913,850
Exercised during the year	1.249	(28,317,250)	1.327	(34,605,100)
Forfeited during the year	1.631	(1,183,500)	1.545	(2,248,500)
Expired during the year	1.255	(4,086,500)	-	-
Granted during the year	2.030	50,000,000	-	-
At 31 December	1.789	154,473,000	1.574	138,060,250

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	Number of share options						Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2021	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2021		
Executive directors								
Mr. Fok Tung Ling	-	-	-	-	-	-	-	-
Mr. Zhang Yue Jun	-	-	-	-	-	-	-	-
Mr. Xu Huijun	5,000,000	-	-	-	-	5,000,000	28 Aug 19 - 27 Aug 23	1,300
	10,000,000	-	-	-	-	10,000,000	8 Apr 20 - 7 Apr 24	1,890
	-	4,000,000	-	-	-	4,000,000	13 Apr 22 - 12 Apr 26	2,030
	15,000,000	4,000,000	-	-	-	19,000,000		-
Mr. Chang Fei Fu	1,100,000	-	(1,100,000)	-	-	-	26 Aug 17 - 25 Aug 21	1,255
	1,500,000	-	(1,000,000)	-	-	500,000	10 Apr 19 - 9 Apr 23	1,170
	5,000,000	-	-	-	-	5,000,000	8 Apr 20 - 7 Apr 24	1,890
	-	2,000,000	-	-	-	2,000,000	13 Apr 22 - 12 Apr 26	2,030
	7,600,000	2,000,000	(2,100,000)	-	-	7,500,000		-
Mr. Bu Binlong	3,300,000	-	(3,300,000)	-	-	-	26 Aug 17 - 25 Aug 21	1,255
	1,800,000	-	-	-	-	1,800,000	10 Apr 19 - 9 Apr 23	1,170
	5,000,000	-	-	-	-	5,000,000	8 Apr 20 - 7 Apr 24	1,890
	-	2,000,000	-	-	-	2,000,000	13 Apr 22 - 12 Apr 26	2,030
	10,100,000	2,000,000	(3,300,000)	-	-	8,800,000		-
								1,8775

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2021	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year				
Executive directors									
Ms. Huo Xinru	1,050,000	-	-	-	-	1,050,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1.170
	5,000,000	-	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1.890
	-	2,000,000	-	-	-	2,000,000	13 Apr 21	13 Apr 22 - 12 Apr 26	2.030
	<u>6,050,000</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,050,000</u>			-
Non-executive director									
Mr. Wu Tielong	1,650,000	-	(1,650,000)	-	-	-	26 Aug 16	26 Aug 17 - 25 Aug 21	1.255
	1,800,000	-	-	-	-	1,800,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1.170
	5,000,000	-	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1.890
	<u>8,450,000</u>	<u>-</u>	<u>(1,650,000)</u>	<u>-</u>	<u>-</u>	<u>6,800,000</u>			-
									1.7900

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2021	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year				
Independent non-executive directors									
Mr. Lau Siu Ki, Kevin	110,000	-	(110,000)	-	-	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255	1,9800
	200,000	-	(150,000)	-	-	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170	1,9800
	200,000	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-
	510,000	-	(260,000)	-	-				-
Dr. Lin Jin Tong	55,000	-	(55,000)	-	-	26 Aug 16	26 Aug 17 - 25 Aug 21	1,255	1,8400
	200,000	-	-	-	-	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170	-
	200,000	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-
	455,000	-	(55,000)	-	-				-
Ms. Ng Yi Kum	200,000	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

Name or category of participant	Number of share options						Exercise price of share options HK\$ per share	Exercise period of share options	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2021	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2021			
Other employees									
in aggregate									
	19,522,250	-	(15,433,250)	(4,086,500)	(2,500)	-	26 Aug 16	26 Aug 17 - 25 Aug 21	1.9227
	27,285,500	-	(4,955,500)	-	(423,500)	21,906,500	10 Apr 18	10 Apr 19 - 9 Apr 23	2.0682
	42,887,500	-	(563,500)	-	(757,500)	41,566,500	8 Apr 19	8 Apr 20 - 7 Apr 24	2.1939
	-	40,000,000	-	-	-	40,000,000	13 Apr 21	13 Apr 22 - 12 Apr 26	-
	<u>89,695,250</u>	<u>40,000,000</u>	<u>(20,952,250)</u>	<u>(4,086,500)</u>	<u>(1,183,500)</u>	<u>103,473,000</u>			<u>1.9644</u>
	<u>138,060,250</u>	<u>50,000,000</u>	<u>(28,317,250)</u>	<u>(4,086,500)</u>	<u>(1,183,500)</u>	<u>154,473,000</u>			

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

50,000,000 share options were granted on 13 April 2021 with an exercise price of HK\$2.03 under the 2013 Scheme. The closing price of the Company's shares immediately before the date on which the options were granted was HK\$2.00.

The fair value of the share options granted during the current period was approximately HK\$33,178,000 (HK\$0.66 each), of which the Group recognized a share option expense of approximately HK\$12,006,000 during the current period. Fair value of the share options granted to the following persons on the date of grant was listed as below:

	Fair value HK\$'000
Executive directors	
Xu Huijun	2,680
Chang Fei Fu	1,341
Bu Binlong	1,341
Huo Xinru	1,341
	<hr/> 6,703
Other employees in aggregate	26,475
	<hr/> 33,178 <hr/>

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

Dividend yield (%)	0.94
Expected volatility (%)	43.27
Risk-free interest rate (%)	0.76
Post vesting exit rate (%)	15.34-21.13
Expected life of the share options (years)	1.90
Weighted average share price (HK\$ per share)	2.03

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

31 December 2021			
Number of share options	Exercise price of share options HK\$		Exercise period
27,306,500	1.170		10 April 2019 to 9 April 2023
5,000,000	1.300	28 August 2019 to 27 August 2023	
72,166,500	1.890	8 April 2020 to 7 April 2024	
50,000,000	2.030	13 April 2022 to 12 April 2026	
<u>154,473,000</u>			

31 December 2020			
Number of share options	Exercise price of share options HK\$		Exercise period
25,737,250	1.255	26 August 2017 to 25 August 2021	
33,835,500	1.170	10 April 2019 to 9 April 2023	
5,000,000	1.300	28 August 2019 to 27 August 2023	
73,487,500	1.890	8 April 2020 to 7 April 2024	
<u>138,060,250</u>			

The expense recognized in the consolidated statement of profit or loss for employee services received during the year is approximately HK\$24,578,000 (2020: HK\$23,020,000).

At the end of the reporting period, the Company had 154,473,000 share options outstanding under the 2013 Scheme, of which 53,458,000 were vested and 101,015,000 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 154,473,000 additional ordinary shares of the Company and additional share capital of HK\$15,447,300 and share premium of HK\$260,780,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 153,273,500 share options outstanding under the 2013 Scheme, which represented approximately 5.51% of the Company's shares in issue as at that date.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 28 May 2018, the Company may further grant 246,516,486 share options (being 10% of the total number of issued shares of the Company as at 28 May 2018). Since 5,000,000 share options, 80,000,000 share options and 50,000,000 share options were granted on 28 August 2018, 8 April 2019 and 13 April 2021 respectively, the total number of unissued share options under the scheme limit became 111,516,486, representing approximately 4.01% of the Company's shares in issue as at 31 December 2021.

(b) Share Award Scheme

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

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

The Board has resolved to renew the term of the Share Award Scheme for a term of ten years as from 25 March 2021 to 25 March 2031. Please refer to the announcement of the Company dated 25 March 2021 for details.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(b) Share Award Scheme (continued)

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

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. All such 26,000,000 Awarded Shares were vested / lapsed.

Movements in the number of treasury shares held for the Share Award Scheme for the years ended 31 December 2020 and 2021 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>16,637,136</u>

No Awarded Shares held for Selected Persons were outstanding as at 31 December 2021. No Awarded Shares were granted to any Selected Persons during the year ended 31 December 2021.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(c) Share Incentive Scheme

On 29 May 2020, the Company adopted a share incentive scheme (the “Scheme”) and on 1 June 2020 and 10 June 2020, the shares of Comba Network Systems Company Limited (“Comba Network”), an indirect subsidiary of the Company, were awarded to directors, employees and consultants of the Group to recognize their contributions. Comba Business Consulting (Guangzhou) Limited# (京信企業諮詢(廣州)有限公司) (“Comba Consulting”, an indirect wholly-owned subsidiary of the Company), acts as a general partner, together with the selected participants (the “Selected Participants”) in the Scheme who act as limited partners, has set up three Non-G Partnerships (as defined below) and four G Partnerships (as defined below) in the People’s Republic of China.

Comba Consulting has set up 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)) (the “Non-G Partnerships”) under the Non-G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. The Selected Participants under Non-G Partnerships consist of four Directors, five directors of the relevant subsidiaries of the Company, 98 employees of the Group (excluding Comba Network and its subsidiaries, collectively the “Comba Network Group”) and three consultants of the Group (excluding Comba Network Group). Upon the completion of the establishment, Non-G Partnerships purchased certain existing shares of Comba Network from Comba Telecom Systems Limited, a wholly owned subsidiary of the Company, at the total consideration of RMB57,700,000.

Comba Consulting has also set up 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)) (the “G Partnerships”) under the G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. The Selected Participants in the G Partnerships consist of one Director, three directors of the relevant subsidiaries of the Company as well as 119 employees of the Comba Network Group. Upon the completion of the establishment, G Partnerships subscribed for and Comba Network issued certain new shares at the total consideration of RMB54,400,000.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(c) Share Incentive Scheme (continued)

Pursuant to the partnership interest transfer agreements entered into between (i) Comba Consulting as general partner (the “G General Partner”) of G Partnerships (the “Existing G Partnerships”) and (ii) certain existing limited partners in G Partnerships which consist of a Director together with 100 employees and five directors in the Comba Network Group (the “Existing G Limited Partners”) and certain new limited partners in G Partnerships which consist of 10 employees in the Comba Network Group (the “Additional G Limited Partners”) on 12 April 2021, the G General Partner has transferred its limited partnership interests in the Existing G Partnerships in the aggregate amount of RMB14,000,000 to certain Existing G Limited Partners and Additional G Limited Partners, as limited partners of the Existing G Partnerships, including RMB13,160,000 to certain Existing G Limited Partners and RMB840,000 to the Additional G Limited Partners at the total consideration of RMB14,000,000.

Comba Consulting has further set up Xin Han Tong No.9 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通九號企業管理(珠海)合夥企業(有限合夥)), Xin Han Tong No.10 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通十號企業管理(珠海)合夥企業(有限合夥)), Xin Han Tong No.11 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通十一號企業管理(珠海)合夥企業(有限合夥)) and Xin Han Tong No.12 Enterprise Management (Zhuhai) Partnership (Limited Partnership)# (鑫瀚通十二號企業管理(珠海)合夥企業(有限合夥)) (collectively the “New G Partnerships”) in the People’s Republic of China under the New G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. The Selected Participants under New G Partnerships consist of 174 employees of the Comba Network Group.

Pursuant to the capital increase agreement entered into between New G Partnerships and Comba Network on 12 April 2021, the New G Partnerships subscribed for and Comba Network issued new shares at the total consideration of RMB20,000,000, including RMB19,880,000 contributed by the limited partners in New G Partnerships as limited partners, and RMB120,000 contributed by Comba Consulting as general partner, respectively.

Each of the Non-G Partnerships, Existing G Partnerships and New G Partnerships has been accounted for as a subsidiary of the Company and its financial results have been consolidated into the accounts of the Company. As at 31 December 2021, the Non-G Partnerships, Existing G Partnerships and New G Partnerships hold approximately 4.71%, 4.44% and 1.63% of the equity interest of Comba Network, respectively.

The Group had recorded the expenses associated with the shares granted under the Scheme of HK\$27,667,000 in the statement of profit or loss in 2021.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages [84 and 85] of the annual report.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities were as follows:

2021	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2021	1,382,473	157,623
Changes from financing cash flows	57,616	(39,729)
New leases	-	35,541
Foreign exchange movement	4,650	(4,385)
Interest expense	-	3,264
COVID-19-related rent concessions from lessors	-	(551)
Reassessment and revision of lease terms	-	(57,384)
At 31 December 2021	<u>1,444,739</u>	<u>94,379</u>
2020	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2020	1,758,125	137,667
Changes from financing cash flows	(398,392)	(36,763)
New leases	-	65,389
Foreign exchange movement	22,740	(4,409)
Interest expense	-	3,542
COVID-19-related rent concessions from lessors	-	(1,864)
Reassessment and revision of lease terms	-	(2,397)
Interest paid classified as operating cash flows	-	(3,542)
At 31 December 2020	<u>1,382,473</u>	<u>157,623</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 HK\$'000	2020 HK\$'000
Within operating activities	12,778	3,542
Within financing activities	<u>39,729</u>	<u>36,763</u>
	<u>52,507</u>	<u>40,305</u>

33. CONTINGENT LIABILITIES

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

	2021 HK\$'000	2020 HK\$'000
Guarantees given to banks in respect of performance bonds*	<u>276,836</u>	<u>381,819</u>

* Part of performance bonds are secured by the pledge of certain of the Group's time deposits amounting to HK\$78,220,000 (2020: HK\$142,712,000).

34. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2021 HK\$'000	2020 HK\$'000
Contracted, but not provided for: Plant and machinery	<u>8,566</u>	<u>17,225</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. RELATED PARTY TRANSACTIONS

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

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

	2021 HK\$'000	2020 HK\$'000
Short-term employee benefits	21,908	30,373
Equity-settled share option expense	7,249	7,358
Share based payment expense	3,331	1,603
Pension scheme contributions	<u>215</u>	<u>192</u>
Total compensation paid to key management personnel	<u>32,703</u>	<u>39,526</u>

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

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

2021

Financial assets

	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	3,102	-	3,102
Equity investments at fair value through other comprehensive income	-	-	62,813	62,813
Equity investments at fair value through profit or loss	-	90,534	-	90,534
Trade receivables	4,129,136	-	-	4,129,136
Notes receivable	97,109	-	-	97,109
Financial assets included in prepayments, other receivables and other assets	335,714	-	-	335,714
Restricted bank deposits	134,095	-	-	134,095
Time deposit	502,553	-	-	502,553
Cash and cash equivalents	1,652,228	-	-	1,652,228
	<u>6,850,835</u>	<u>93,636</u>	<u>62,813</u>	<u>7,007,284</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

<u>Financial liabilities</u>	Financial liabilities at amortized cost HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	342,771	342,771
Trade and bills payables	4,544,849	-	4,544,849
Financial liabilities included in other payables and accruals	342,568	-	342,568
Interest-bearing bank borrowings	1,444,739	-	1,444,739
Lease liabilities	60,300	-	60,300
	<u>6,392,456</u>	<u>342,771</u>	<u>6,735,227</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2020

Financial assets

	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	1,475	-	1,475
Equity investments at fair value through other comprehensive income	-	-	38,563	38,563
Equity investments at fair value through profit or loss	-	30,851	-	30,851
Trade receivables	4,130,899	-	-	4,130,899
Notes receivable	134,132	-	-	134,132
Financial assets included in prepayments, other receivables and other assets	448,494	-	-	448,494
Restricted bank deposits	160,068	-	-	160,068
Cash and cash equivalents	1,716,786	-	-	1,716,786
	<u>6,590,379</u>	<u>32,326</u>	<u>38,563</u>	<u>6,661,268</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

<u>Financial liabilities</u>	Financial liabilities at amortized cost HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	111,908	111,908
Trade and bills payables	4,030,825	-	4,030,825
Financial liabilities included in other payables and accruals	592,564	-	592,564
Interest-bearing bank borrowings	1,382,473	-	1,382,473
Lease liabilities	103,592	-	103,592
	<u>6,109,454</u>	<u>111,908</u>	<u>6,221,362</u>

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The fair values of the non-current portion of restricted bank deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair values as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2021 were assessed to be insignificant.

As at 31 December 2020 and 2021, the carrying amount of the Group's financial assets and financial liabilities approximate to their fair values.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/E multiple of peers	Nil (2020: 12.08 to 12.91)	Nil (2020: 10%) increase/decrease in multiple would result in increase/decrease in fair value by Nil (2020: HK\$299,000)
		Average P/S multiple of peers	0.78 to 25.46 (2020: Nil)	10% (2020: Nil) increase/decrease in multiple would result in increase/decrease in fair value by HK\$906,000 (2020: Nil)
		Discount for lack of marketability	30% (2020: 30%)	10% (2020: 10%) increase/decrease in discount would result in decrease/increase in fair value by HK\$388,000 (2020: HK\$128,000)
	Discounted cash flow method	Long term growth rate	Nil (2020: 3%)	Nil (2020: 10%) increase/decrease in growth rate would result in increase/decrease in fair value by Nil (2020: HK\$377,000)
		Long term operating margin	Nil (2020: 41%)	Nil (2020: 10%) increase/decrease in operating margin would result in increase/decrease in fair value by Nil (2020: HK\$5,321,000)
		Weighted average cost of capital (WACC)	Nil (2020: 20.5%)	Nil (2020: 10%) increase/decrease in WACC would result in decrease/increase in fair value by Nil (2020: HK\$4,088,000)
		Discount for lack of marketability	Nil (2020: 30%)	Nil (2020: 10%) increase/decrease in discount would result in decrease/increase in fair value by Nil (2020: HK\$1,104,000)
		Discount for lack of control	Nil (2020: 5%)	Nil (2020: 10%) increase/decrease in discount would result in decrease/increase in fair value by Nil (2020: HK\$136,000)

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Redeemable preferred shares in a subsidiary	Equity valuation allocation model	Fair value of equity value	NA	5% (2020: 5%) increase/decrease in fair value per share would result in increase/decrease in fair value by HK\$17,139,000 (2020: HK\$5,595,000)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

	Quoted prices in active markets (level 1) HK\$'000	Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	3,102	-	3,102
Equity investments designated at fair value through other comprehensive income	-	53,241	9,572	62,813
Equity investments designated at fair value through profit or loss	-	86,436	4,098	90,534
	<u>-</u>	<u>142,779</u>	<u>13,670</u>	<u>156,449</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)Assets measured at fair value: (continued)

As at 31 December 2020

	Quoted prices in active markets (level 1) HK\$'000	Fair value measurement using Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	1,475	-	1,475
Equity investments designated at fair value through other comprehensive income	-	38,563	-	38,563
Equity investments designated at fair value through profit or loss	-	-	30,851	30,851
	-	40,038	30,851	70,889

As at 31 December 2021, the Group transferred its financial assets at fair value through profit or loss of HK\$27,733,000 from Level 3 to Level 2 fair value hierarchy and transferred its financial assets at fair value through other comprehensive income of HK\$9,593,000 from Level 2 to Level 3 fair value hierarchy. As at 31 December 2021, the fair value of the unlisted equity investments at Level 2 fair value hierarchy was based on transaction price. The fair value of the unlisted equity investments at Level 3 fair value hierarchy was based on a market-based valuation technique. The fair values of financial assets at fair value through profit or loss were measured using valuation models and various market observable inputs, including tenor, volatility and spot rate.

As at 31 December 2020, the fair value of the unlisted equity investments at fair value through other comprehensive income was based on transaction price. The fair value of the unlisted equity investments at fair value through profit or loss was based on a market-based valuation technique. The fair values of financial assets at fair value through profit or loss were measured using valuation models and various market observable inputs, including tenor, volatility and spot rate.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

Liabilities measured at fair value:

As at 31 December 2021

	Quoted prices in active markets (level 1) HK\$'000	Fair value measurement using Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	-	342,771	342,771

As at 31 December 2020

	Quoted prices in active markets (level 1) HK\$'000	Fair value measurement using Significant observable inputs (level 2) HK\$'000	Significant unobservable inputs (level 3) HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	-	111,908	111,908

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2021			
Hong Kong dollars	50	(13,284)	-
RMB	50	(428)	-
Hong Kong dollars	(50)	13,284	-
RMB	(50)	428	-
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2020			
Hong Kong dollars	50	(4,161)	-
RMB	50	(156)	-
Hong Kong dollars	(50)	4,161	-
RMB	(50)	156	-

* Excluding retained profits

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 13.1% (2020:11.2%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 93.1% (2020:97.6%) of costs were denominated in the units' functional currencies.

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

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2021			
If Hong Kong dollar weakens against US\$	5	10,131	-
If Hong Kong dollar strengthens against US\$	(5)	(10,131)	-
If Brazil dollar weakens against US\$	5	(11,399)	-
If Brazil dollar strengthens against US\$	(5)	11,399	-
If RMB weakens against US\$	5	9,562	-
If RMB strengthens against US\$	(5)	(9,562)	-
If Hong Kong dollar weakens against AED	5	(18,260)	-
If Hong Kong dollar strengthens against AED	(5)	18,260	-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2020			
If Hong Kong dollar weakens against US\$	5	9,020	-
If Hong Kong dollar strengthens against US\$	(5)	(9,020)	-
If Brazil dollar weakens against US\$	5	(13,916)	-
If Brazil dollar strengthens against US\$	(5)	13,916	-
If RMB weakens against US\$	5	12,275	-
If RMB strengthens against US\$	(5)	(12,275)	-
If Hong Kong dollar weakens against AED	5	(16,832)	-
If Hong Kong dollar strengthens against AED	(5)	16,832	-

* Excluding retained profits

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2021. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	Total HK\$'000
Trade receivables*	-	-	-	4,852,632	4,852,632
Notes receivable	-	-	-	102,077	102,077
Financial assets included in prepayments, other receivables and other assets	303,845	-	31,869	-	335,714
Restricted bank deposits	134,095	-	-	-	134,095
Time deposit	502,553	-	-	-	502,553
Cash and cash equivalents	<u>1,652,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,228</u>
	<u>2,592,721</u>	<u>-</u>	<u>31,869</u>	<u>4,954,709</u>	<u>7,579,299</u>

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	Total HK\$'000
Trade receivables*	-	-	-	4,679,771	4,679,771
Notes receivable	-	-	-	136,936	136,936
Financial assets included in prepayments, other receivables and other assets	417,620	-	30,874	-	448,494
Restricted bank deposits	160,068	-	-	-	160,068
Cash and cash equivalents	<u>1,716,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,716,786</u>
	<u>2,294,474</u>	<u>-</u>	<u>30,874</u>	<u>4,816,707</u>	<u>7,142,055</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group has certain concentrations of credit risk as 28% (2020: 25%) and 70% (2020: 66%) of the Group's trade receivables were due from the Group's largest customer and the 5 largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables is disclosed in note 21 to the financial statements.

Liquidity risk

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

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

	On demand HK\$'000	Within 1 year HK\$'000	2021 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	-	424,752		424,752
Interest-bearing bank borrowings	321,399	352,751	829,987	-	1,504,137
Trade and bills payables	-	4,544,849	-	-	4,544,849
Financial liabilities included in other payables and accruals	-	342,568	-	-	342,568
Lease liabilities	-	-	52,961	13,762	66,723
	<u>321,399</u>	<u>5,240,168</u>	<u>1,307,700</u>	<u>13,762</u>	<u>6,883,029</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand	Within 1 year	2020 1 to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Redeemable preferred shares in a subsidiary	-	-	147,719	-	147,719
Interest-bearing bank borrowings	369,546	627,733	411,968	-	1,409,247
Trade and bills payables	-	4,030,825	-	-	4,030,825
Financial liabilities included in other payables and accruals	-	599,314	-	-	599,314
Lease liabilities	-	-	96,215	34,414	130,629
	<u>369,546</u>	<u>5,257,872</u>	<u>655,902</u>	<u>34,414</u>	<u>6,317,734</u>

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2021.

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

	2021 HK\$'000	2020 HK\$'000
Interest-bearing bank borrowings	<u>1,444,739</u>	<u>1,382,473</u>
Total assets	<u>11,512,579</u>	<u>11,325,161</u>
Gearing ratio	<u>12.5%</u>	<u>12.2%</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

39. 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.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSET		
Investments in subsidiaries	<u>828,219</u>	<u>847,837</u>
CURRENT ASSETS		
Other receivables	302	377
Due from subsidiaries	1,455,404	1,421,555
Cash and cash equivalents	<u>3,491</u>	<u>4,149</u>
Total current assets	<u>1,459,197</u>	<u>1,426,081</u>
CURRENT LIABILITIES		
Due to a subsidiary	-	488
Other payables and accruals	<u>93,441</u>	<u>91,024</u>
Total current liabilities	<u>93,441</u>	<u>91,512</u>
NET CURRENT ASSETS	<u>1,365,756</u>	<u>1,334,569</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,193,975</u>	<u>2,182,406</u>
NON-CURRENT LIABILITY		
Financial guarantee contracts	<u>42,473</u>	<u>86,669</u>
Net assets	<u>2,151,502</u>	<u>2,095,737</u>
EQUITY		
Issued capital	277,892	275,060
Treasury shares	(22,818)	(22,818)
Reserves (note)	<u>1,896,428</u>	<u>1,843,495</u>
Total equity	<u>2,151,502</u>	<u>2,095,737</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Note:

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

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Share-based compensation reserve** HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 December 2019	715,772	373,108	49,431	415	33,443	1,172,169
Loss and total comprehensive loss for the year	-	-	-	-	(5,281)	(5,281)
Share option scheme						
- value of services	-	-	23,020	-	-	23,020
- exercise of share options	58,017	-	(15,546)	-	-	42,471
- transfer of share option reserve upon the forfeiture or expiry of share options	-	-	233	-	(233)	-
Final 2019 dividend	-	(4,966)	-	-	(27,929)	(32,895)
Interim 2020 dividend	-	(19,224)	-	-	-	(19,224)
Issue of shares	663,235	-	-	-	-	663,235
At 31 December 2020 and 1 January 2021	1,437,024	348,918	57,138	415	-	1,843,495
Loss and total comprehensive loss for the year	-	-	-	-	(3,972)	(3,972)
Share option scheme						
- value of services	-	-	24,578	-	-	24,578
- exercise of share options	47,114	-	(14,787)	-	-	32,327
- transfer of share option reserve upon the forfeiture or expiry of share options	-	-	(2,717)	-	2,717	-
At 31 December 2021	1,484,138	348,918	64,212	415	(1,255)	1,896,428

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

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 24 March 2022.

**APPENDIX B – INDEPENDENT REVIEW REPORT AND UNAUDITED INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED AND ITS SUBSIDIARIES
AS AT AND FOR THE SIX (6) MONTHS ENDED 30 JUNE 2022**

Unaudited Interim Condensed Consolidated Financial Statements

COMBA TELECOM SYSTEMS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

30 June 2022

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

CONTENTS

	Pages
INDEPENDENT REVIEW REPORT	1
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
Interim condensed consolidated statement of profit or loss	2
Interim condensed consolidated statement of comprehensive income	3
Interim condensed consolidated statement of financial position	4 - 5
Interim condensed consolidated statement of changes in equity	6 - 7
Interim condensed consolidated statement of cash flows	8 - 9
Notes to Interim condensed consolidated financial statements	10 - 68

Independent review report**To the board of directors of Comba Telecom Systems Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 68, which comprises the condensed consolidated statement of financial position of Comba Telecom Systems Holdings Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2022 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Restriction on use

Our review report is intended solely for the information and use of inclusion in the Introductory Document in connection with the secondary listing by way of introduction of the ordinary shares of the Company on the Main Board of Singapore Exchange Securities Trading Limited and should not be used by parties other than these specified parties.

Certified Public Accountants
Hong Kong
30 December 2022

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		For the six months ended 30 June	
		2022	2021
		HK\$'000	HK\$'000
	Notes	(Unaudited)	(Unaudited)
REVENUE	5	3,042,518	2,418,128
Cost of sales		<u>(2,195,392)</u>	<u>(1,737,142)</u>
Gross profit		847,126	680,986
Other income and gains	5	81,611	67,984
Research and development expenses	6	(259,477)	(256,763)
Selling and distribution expenses		(265,088)	(235,734)
Administrative expenses		(214,880)	(216,705)
Other expenses		(87,574)	(112,307)
Finance costs	7	(21,653)	(21,425)
Share of profit of a joint venture		<u>1,991</u>	<u>4,907</u>
PROFIT/(LOSS) BEFORE TAX	6	82,056	(89,057)
Income tax expense	8	<u>(23,331)</u>	<u>(26,943)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>58,725</u>	<u>(116,000)</u>
Attributable to:			
Owners of the parent		90,384	(89,360)
Non-controlling interests		<u>(31,659)</u>	<u>(26,640)</u>
		<u>58,725</u>	<u>(116,000)</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	10		
Basic		<u>HK3.25 cents</u>	<u>HK(3.26) cents</u>
Diluted		<u>HK3.25 cents</u>	<u>HK(3.26) cents</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	58,725	(116,000)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(204,762)</u>	<u>80,085</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(204,762)</u>	<u>80,085</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>(1,919)</u>	<u>10,866</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>(1,919)</u>	<u>10,866</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(206,681)</u>	<u>90,951</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(147,956)</u>	<u>(25,049)</u>
Attributable to:		
Owners of the parent	(15,390)	536
Non-controlling interests	<u>(132,566)</u>	<u>(25,585)</u>
	<u>(147,956)</u>	<u>(25,049)</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

		30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,222,201	1,347,683
Right-of-use assets	12(a)	201,838	216,989
Goodwill		242,773	242,773
Deferred tax assets	13	212,989	225,614
Intangible assets	14	750,116	806,267
Equity investments designated at fair value through other comprehensive income		57,527	62,813
Equity investments designated at fair value through profit or loss		93,443	90,534
Restricted bank deposits	19	30,557	26,195
Time deposits	19	363,007	257,405
Investment in a joint venture		17,656	18,354
Total non-current assets		<u>3,192,107</u>	<u>3,294,627</u>
CURRENT ASSETS			
Inventories	16	1,388,045	1,356,335
Trade receivables	17	4,126,289	4,129,136
Notes receivable	18	169,780	97,109
Prepayments, other receivables and other assets	15	498,643	626,994
Financial assets designated at fair value through profit or loss		2,291	3,102
Restricted bank deposits	19	115,428	107,900
Time deposits	19	117,099	245,148
Cash and cash equivalents	19	1,698,979	1,652,228
Total current assets		<u>8,116,554</u>	<u>8,217,952</u>
CURRENT LIABILITIES			
Trade and bills payables	20	4,372,787	4,544,849
Other payables and accruals	21	596,420	623,223
Interest-bearing bank borrowings	22	851,802	644,739
Tax payable		82,228	73,527
Provision for product warranties	23	73,407	75,290
Total current liabilities		<u>5,976,644</u>	<u>5,961,628</u>
NET CURRENT ASSETS		<u>2,139,910</u>	<u>2,256,324</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,332,017</u>	<u>5,550,951</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2022

		30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
	Notes		
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	760,000	800,000
Deferred tax liabilities	13	158,687	164,063
Lease liabilities	12(b)	44,727	60,300
Redeemable preferred shares in a subsidiary	24	325,657	342,771
Total non-current liabilities		<u>1,289,071</u>	<u>1,367,134</u>
Net assets		<u>4,042,946</u>	<u>4,183,817</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	25	277,955	277,892
Treasury shares	25	(22,818)	(22,818)
Reserves	27	3,529,620	3,519,642
		<u>3,784,757</u>	<u>3,774,716</u>
Non-controlling interests		<u>258,189</u>	<u>409,101</u>
Total equity		<u>4,042,946</u>	<u>4,183,817</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Notes	Attributable to owners of the parent							Fair value reserve of equity			Non-controlling interests HK\$'000	Total equity HK\$'000
		Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	investments at FVOCI HK\$'000	Retained profits HK\$'000	Total HK\$'000	
At 1 January 2021		275,060	(22,818)	1,437,024	66,757	45,480	35,624	211,071	85,325	10,025	1,963,365	4,106,913	4,550,034
Loss for the period		-	-	-	-	-	-	-	-	-	(89,360)	(89,360)	(116,000)
Other comprehensive income for the period:													
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	-	-	10,866	-	10,866	10,866
Exchange differences related to foreign operations		-	-	-	-	-	-	-	79,030	-	-	79,030	80,085
Total comprehensive loss for the period		-	-	-	-	-	-	-	79,030	10,866	(89,360)	536	(25,049)
Share option scheme													
- value of services	26(a)	-	-	-	11,481	-	-	-	-	-	-	11,481	11,481
- exercise of share options		733	-	12,012	(3,596)	-	-	-	-	-	-	9,149	9,149
- transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	(1,084)	-	-	-	-	-	1,084	-	-
Share incentive scheme													
- value of services		-	-	-	12,150	-	-	-	-	-	-	12,150	12,150
Capital contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Transfer to/from retained profits		-	-	-	-	-	(1,805)	-	-	-	1,805	-	-
At 30 June 2021 (unaudited)		275,793	(22,818)	1,449,036	85,708	45,480	33,819	211,071	164,355	20,891	1,876,894	4,140,229	4,597,575

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2022

Attributable to owners of the parent														
		Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve of equity investments at FVOCI HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
	Notes	277,892	(22,818)	1,484,138*	101,498*	45,480*	68,396*	211,071*	205,544*	26,985*	1,376,530*	3,774,716	409,101	4,183,817
At 1 January 2022		-	-	-	-	-	-	-	-	-	90,384	90,384	(31,659)	58,725
Profit for the period		-	-	-	-	-	-	-	-	(1,919)	-	(1,919)	-	(1,919)
Other comprehensive income for the period:		-	-	-	-	-	-	-	(103,855)	-	-	(103,855)	(100,907)	(204,762)
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the period		-	-	-	-	-	-	-	(103,855)	(1,919)	90,384	(15,390)	(132,566)	(147,956)
Share option scheme		-	-	-	-	-	-	-	-	-	-	-	-	-
- value of services	26(a)	-	-	-	10,088	-	-	-	-	-	-	10,088	-	10,088
- exercise of share options	25(ii)	63	-	996	(290)	-	-	-	-	-	-	769	-	769
- transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	(42)	-	-	-	-	-	42	-	-	-
Share incentive scheme		-	-	-	-	-	-	-	-	-	-	-	-	-
- value of services	26(c)	-	-	-	14,574	-	-	-	-	-	-	14,574	-	14,574
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	(18,346)	(18,346)
Transfer to/from retained profits		-	-	-	-	-	(1,400)	1,398	-	-	2	-	-	-
At 30 June 2022 (unaudited)		277,955	(22,818)	1,485,134*	125,828*	45,480*	66,996*	212,469*	101,689*	25,066*	1,466,958*	3,784,757	258,189	4,042,946

* These reserve accounts comprise the consolidated reserves of HK\$3,529,620,000 (31 December 2021: HK\$3,519,642,000) in the interim condensed consolidated statement of financial position.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

		For the six months ended 30 June	
		2022	2021
		HK\$'000	HK\$'000
	Notes	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		82,056	(89,057)
Adjustments for:			
Interest income	5	(17,244)	(12,739)
Finance costs	7	21,653	21,425
Share of profit of a joint venture		(1,991)	(4,907)
Depreciation of property, plant and equipment	6	105,910	102,277
Depreciation of right-of-use assets	6	34,207	25,086
Amortization of intangible assets		87,368	71,997
Loss on disposal of items of property, plant and equipment	6	899	5,985
Equity-settled share option expense	6	10,088	11,481
Awarded share expense	6	14,574	12,150
Loss on fair value change of financial assets designated at fair value through profit or loss	6	1,748	1,923
(Gain)/loss on fair value change of redeemable preferred shares in a subsidiary	6	(1,862)	11,116
(Gain)/loss on equity investments designated at fair value through profit or loss	6	(1,134)	926
		<u>336,272</u>	<u>157,663</u>
Increase in inventories		(92,293)	(114,303)
(Increase)/decrease in trade receivables		(181,589)	32,970
(Increase)/decrease in notes receivable		(77,009)	56,783
Decrease in prepayments, other receivables and other assets		100,486	217,248
Increase/(decrease) in trade and bills payables		30,942	(130,723)
Decrease in other payables and accruals		(9,553)	(248,385)
Increase/(decrease) in provision for product warranties		<u>1,664</u>	<u>(214)</u>
Cash generated from/ (used in) operations		108,920	(28,961)
Mainland China profits tax paid		(1,899)	(14,909)
Overseas profits taxes paid		(11,634)	(2,705)
Interest paid on lease liabilities		<u>-</u>	<u>(1,699)</u>
Net cash flows from/ (used in) operating activities		<u>95,387</u>	<u>(48,274)</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2022

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Notes	(Unaudited)	(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	17,244	12,739
Purchases of items of property, plant and equipment	(58,990)	(54,948)
Addition of intangible assets	(49,025)	(36,642)
Proceeds from disposal of items of property, plant and equipment	979	9,987
Purchase of financial assets designated at fair value through profit or loss	(7,176)	(1,749)
Increase in restricted bank deposits	<u>(17,880)</u>	<u>(13,978)</u>
Net cash flows used in investing activities	<u>(114,848)</u>	<u>(84,591)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	482,409	469,559
Repayment of bank loans	(299,085)	(462,848)
Exercise of share options	25(ii) 769	9,149
Interest and other finance costs paid	(21,653)	(19,726)
Principal portion of lease payments	(31,955)	(20,619)
Dividends paid to non-controlling shareholders	(11,422)	-
Contribution from the non-controlling shareholders	-	39,810
Issued redeemable preferred shares in a subsidiary	<u>-</u>	<u>156,296</u>
Net cash flows from financing activities	<u>119,063</u>	<u>171,621</u>
NET INCREASE IN CASH AND CAS EQUIVALENTS		
	99,602	38,756
Cash and cash equivalents at beginning of period	1,652,228	1,716,786
Effect of foreign exchange rate changes, net	<u>(52,851)</u>	<u>18,463</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>1,698,979</u></u>	<u><u>1,774,005</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,517,520	1,708,084
Non-pledged time deposits with original maturity of less than three months when acquired	<u>181,459</u>	<u>65,921</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	<u><u>1,698,979</u></u>	<u><u>1,774,005</u></u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2002 under the Companies Act, Cap. 22 (Act 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 Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

During the period, 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 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2022 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

30 June 2022

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
- HKFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

4. 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 profit before tax.

Period ended 30 June 2022	Wireless telecommunications network system equipment and services HK\$'000 (Unaudited)	Operator telecommunication services HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue	2,946,985	95,533	3,042,518
Profit/(loss) before tax	171,336	(89,280)	82,056
Segment assets	10,631,881	1,280,811	11,912,692
Elimination			(604,031)
Total assets			11,308,661
Segment liabilities	7,091,413	778,333	7,869,746
Elimination			(604,031)
Total liabilities			7,265,715
Period ended 30 June 2021	Wireless telecommunications network system equipment and services HK\$'000 (Unaudited)	Operator telecommunication services HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue	2,315,146	102,982	2,418,128
Loss before tax	(5,420)	(83,637)	(89,057)
Year ended 31 December 2021			
Segment assets	10,762,215	1,546,954	12,309,169
Elimination			(796,590)
Total assets			11,512,579
Segment liabilities	7,138,576	986,776	8,125,352
Elimination			(796,590)
Total liabilities			7,328,762

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Mainland China	2,159,485	1,573,719
Other countries/areas in Asia Pacific	349,593	423,484
Americas	263,708	282,501
European Union	211,531	111,814
Middle East	28,410	11,176
Other countries	29,791	15,434
	<u>3,042,518</u>	<u>2,418,128</u>

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

(b) Non-current assets

	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Mainland China	1,940,433	1,758,979
Lao People's Democratic Republic	1,207,216	1,490,117
Other countries/regions	44,458	45,531
	<u>3,192,107</u>	<u>3,294,627</u>

Information about major customers

Revenue of approximately HK\$846,311,000 (six months ended 30 June 2021: HK\$391,022,000), HK\$ 400,966,000 (six months ended 30 June 2021: HK\$194,024,000) and HK\$208,370,000 (six months ended 30 June 2021: HK\$261,793,000) was derived from 3 major customers, which accounted for 27.8% (six months ended 30 June 2021: 16.2%), 13.2% (six months ended 30 June 2021: 8.0%) and 6.8% (six months ended 30 June 2021: 10.8%) of the total revenue of the Group, respectively.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold and services rendered during the period, 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:

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	2,946,985	2,315,146
Provision of operator telecommunication services	95,533	102,982
	<u>3,042,518</u>	<u>2,418,128</u>

Revenue from contracts with customers

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Type of customers		
PRC state-owned telecommunication operator groups	1,617,489	1,061,996
Other customers	1,425,029	1,356,132
	<u>3,042,518</u>	<u>2,418,128</u>
Total revenue from contracts with customers	<u>3,042,518</u>	<u>2,418,128</u>

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
Goods transferred at a point in time	2,946,985	2,315,146
Services transferred over time	95,533	102,982
	<u>3,042,518</u>	<u>2,418,128</u>
Total revenue from contracts with customers	<u>3,042,518</u>	<u>2,418,128</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
<u>Other income and gains</u>	(Unaudited)	(Unaudited)
Bank interest income	17,244	12,739
Government subsidies [#]	37,712	31,101
Exchange gain, net	10,663	-
VAT refunds	2,649	4,963
Gross rental income	3,464	4,210
Technical services income	-	10,121
Gain on fair value change of redeemable preferred shares in a subsidiary	1,862	-
Gain on equity investment designated at fair value through profit or loss	1,134	-
Scrapped and recycled items sales	1,112	1,407
Penalty income	2,193	1,100
Others	3,578	2,343
	<u>81,611</u>	<u>67,984</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 on research and development. There are no unfulfilled conditions or contingencies relating to these subsidies.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

6. PROFIT/(LOSS) BEFORE TAX

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

		For the six months ended 30 June	
		2022	2021
		HK\$'000	HK\$'000
	Notes	(Unaudited)	(Unaudited)
Cost of inventories sold and services provided		2,187,776	1,685,160
Depreciation of property, plant and equipment ^{###}	11	105,910	102,277
Depreciation of right-of-use assets	12	34,207	25,086
Amortization of computer software, technology and operating licence ^{##}	14	15,221	15,371
Research and development expenses:			
Deferred expenditure amortized	14	72,147	56,626
Current period expenditure		187,330	200,137
		<u>259,477</u>	<u>256,763</u>
Employee benefit expense (including directors' remuneration):			
Salaries and wages		448,626	400,693
Staff welfare expenses		18,801	19,376
Equity-settled share option expense	26(a)	10,088	11,481
Awarded share expenses	26(c)	14,574	12,150
Pension scheme contributions (defined contribution scheme) [#]		35,096	34,630
		<u>527,185</u>	<u>478,330</u>
Exchange (gain)/loss, net*		(10,663)	9,293
Provision for product warranties [^]	23	9,030	9,928
Write-down of inventories to net realizable value [^]		283	41,667
Impairment of trade receivables and notes receivable ^{###}	17,18	18,047	18,503
Reversal of impairment of financial assets included in prepayments, other receivables and other assets ^{###}		(2,187)	(2,900)
Loss on disposal of items of property, plant and equipment ^{###}		899	5,985
Loss on fair value change of financial assets designated at fair value through profit or loss ^{###}		1,748	1,923
(Gain)/loss on fair value change of redeemable preferred shares in a subsidiary ^{###}		(1,862)	11,116
(Gain)/loss on equity investments designated at fair value through profit or loss ^{###}		<u>(1,134)</u>	<u>926</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

6. PROFIT/(LOSS) BEFORE TAX (continued)

[^] The provision for product warranties and write-down of inventories to net realizable value for the period were included in “Cost of sales” in the consolidated statement of profit or loss.

[#] As at 30 June 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (as at 30 June 2021: 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.

^{##} The depreciation of certain property, plant and equipment and amortization of operating licence amounting to HK\$55,905,000 (six months ended 30 June 2021: HK\$62,206,000) and HK\$11,661,000 (six months ended 30 June 2021: HK\$11,661,000) are included in “Other expenses” in the consolidated statement of profit or loss.

^{###} These items are included in “Other expenses” and “Other income and gains” in the consolidated statement of profit or loss, respectively.

7. FINANCE COSTS

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loans	20,617	19,630
Finance costs on factored trade receivables	-	84
Interest on lease liabilities	1,036	1,699
Others	-	12
	<u>21,653</u>	<u>21,425</u>
Total		

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

8. 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 period (six months end 30 June 2021: 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.

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – charge for the period		
Hong Kong	-	-
Mainland China	11,036	9,703
Elsewhere	13,642	11,373
Current- underprovision in prior periods	217	-
Deferred	(1,564)	5,867
	<u>23,331</u>	<u>26,943</u>
Total tax charge for the period		

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 period.

9. DIVIDENDS

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend declared and paid	-	-
Interim dividend – HK1 cent per ordinary share	<u>27,795</u>	<u>-</u>

Note:

On 25 August 2022, the Board declared an interim dividend of HK1 cent (six months ended 30 June 2021: Nil) per ordinary share, amounting to a total of approximately HK\$27,795,000 (six months ended 30 June 2021: Nil).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,779,232,000 (six months ended 30 June 2021: 2,737,662,000) in issue during the period.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit/(loss) for the period 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 period, 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.

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

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Earnings/(loss)</u>		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	90,384	(89,360)
	<u>90,384</u>	<u>(89,360)</u>
	Number of shares	
	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	2,779,232,000	2,737,662,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	2,064,000	-
	<u>2,781,296,000</u>	<u>2,737,662,000</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Staff quarters HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
30 June 2022							
At 31 December 2021 and 1 January 2022:							
Cost or valuation	765,484	85,708	2,662,339	250,506	41,045	3,938	3,809,020
Accumulated depreciation	(299,271)	(321)	(1,919,588)	(207,956)	(34,201)	-	(2,461,337)
Net carrying amount	<u>466,213</u>	<u>85,387</u>	<u>742,751</u>	<u>42,550</u>	<u>6,844</u>	<u>3,938</u>	<u>1,347,683</u>
At 1 January 2022, net of accumulated depreciation	466,213	85,387	742,751	42,550	6,844	3,938	1,347,683
Additions	4,728	5,314	33,603	10,801	1,317	3,226	58,989
Disposals	-	-	(1,204)	(303)	(371)	-	(1,878)
Depreciation provided during the period	(6,019)	(1,966)	(90,133)	(6,797)	(995)	-	(105,910)
Exchange realignment	(22,977)	(2,556)	(46,891)	(2,818)	(1,165)	(276)	(76,683)
At 30 June 2022, net of accumulated depreciation	<u>441,945</u>	<u>86,179</u>	<u>638,126</u>	<u>43,433</u>	<u>5,630</u>	<u>6,888</u>	<u>1,222,201</u>
At 30 June 2022:							
Cost or valuation	718,028	88,466	2,311,199	233,255	32,826	6,888	3,390,662
Accumulated depreciation	(276,083)	(2,287)	(1,673,073)	(189,822)	(27,196)	-	(2,168,461)
Net carrying amount	<u>441,945</u>	<u>86,179</u>	<u>638,126</u>	<u>43,433</u>	<u>5,630</u>	<u>6,888</u>	<u>1,222,201</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK\$'000	Staff quarters HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2021							
At 31 December 2020 and 1 January 2021:							
Cost or valuation	733,341	-	2,832,459	275,079	52,482	94,449	3,987,810
Accumulated depreciation	(266,653)	-	(2,082,521)	(234,673)	(46,712)	-	(2,630,559)
Net carrying amount	<u>466,688</u>	<u>-</u>	<u>749,938</u>	<u>40,406</u>	<u>5,770</u>	<u>94,449</u>	<u>1,357,251</u>
At 1 January 2021, net of accumulated depreciation	466,688	-	749,938	40,406	5,770	94,449	1,357,251
Additions	13,374	-	185,639	6,287	6,291	51,319	262,910
Transfer	(9,785)	85,510	66,578	-	-	(142,303)	-
Revaluation surplus	47,924	-	-	-	-	-	47,924
Disposals	(16,583)	-	(41,161)	(2,196)	(1,904)	-	(61,844)
Depreciation provided during the year	(37,638)	(321)	(170,554)	(2,472)	(2,716)	-	(213,701)
Exchange realignment	<u>2,233</u>	<u>198</u>	<u>(47,689)</u>	<u>525</u>	<u>(597)</u>	<u>473</u>	<u>(44,857)</u>
At 31 December 2021, net of accumulated depreciation	<u>466,213</u>	<u>85,387</u>	<u>742,751</u>	<u>42,550</u>	<u>6,844</u>	<u>3,938</u>	<u>1,347,683</u>
At 31 December 2021:							
Cost or valuation	765,484	85,708	2,662,339	250,506	41,045	3,938	3,809,020
Accumulated depreciation	(299,271)	(321)	(1,919,588)	(207,956)	(34,201)	-	(2,461,337)
Net carrying amount	<u>466,213</u>	<u>85,387</u>	<u>742,751</u>	<u>42,550</u>	<u>6,844</u>	<u>3,938</u>	<u>1,347,683</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

12. LEASES

The Group as a lessee

The Group has lease contracts for various items of prepaid land lease payment, buildings, and other equipment. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 and 10 years, while other equipment generally has lease terms between 1 and 10 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the period are as follows:

	Leasehold land HK\$'000	Buildings HK\$'000	Telecom towers and other equipment HK\$'000	Total HK\$'000
As at 1 January 2022	120,297	69,868	26,824	216,989
Additions	-	32,734	901	33,635
Depreciation charge	(2,682)	(30,260)	(1,265)	(34,207)
Exchange realignment	(4,872)	(2,964)	(6,743)	(14,579)
As at 30 June 2022	<u>112,743</u>	<u>69,378</u>	<u>19,717</u>	<u>201,838</u>

	Leasehold land HK\$'000	Buildings HK\$'000	Telecom towers and other equipment HK\$'000	Total HK\$'000
As at 1 January 2021	119,770	120,901	43,074	283,745
Additions	-	36,908	-	36,908
Depreciation charge	(2,900)	(39,369)	(3,203)	(45,472)
Revision of a lease term arising from a change	-	(43,563)	(13,047)	(56,610)
Exchange realignment	3,427	(5,009)	-	(1,582)
As at 31 December 2021	<u>120,297</u>	<u>69,868</u>	<u>26,824</u>	<u>216,989</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

12. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under lease liabilities and other payables and accruals) and the movements during the period are as follows:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Carrying amount at 1 January	94,379	157,623
New leases	31,462	35,541
Accretion of interest recognized during the period	1,036	3,264
COVID-19-related rent concessions from lessors	-	(551)
Payments	(32,991)	(39,729)
Revision of a lease term arising from a change	-	(57,384)
Exchange realignment	(7,574)	(4,385)
Carrying amount at end of period	<u>86,312</u>	<u>94,379</u>
Analyzed into:		
Current portion	41,585	34,079
Non-current portion	<u>44,727</u>	<u>60,300</u>

(c) The amounts recognized in profit or loss in relation to leases are as follows:

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Interest on lease liabilities	1,036	1,699
Depreciation charge of right-of-use assets	34,207	25,086
Expense relating to short-term leases or of low-value assets	992	11,504
COVID-19-related rent concessions from lessors	-	(551)
Total amount recognized in profit or loss	<u>36,235</u>	<u>37,738</u>

(d) The total cash outflow for leases is disclosed in note 28(b) to the financial statements

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

12. LEASES (continued)

The Group as a lessor

The Group leases certain of its properties under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognized by the Group during the period was HK\$3,464,000 (six months ended 30 June 2021: HK\$4,210,000), details of which are included in note 5 to the financial statements.

As at 30 June 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Within 1 year	7,704	9,757
After 1 year but within 2 years	6,114	7,663
After 2 years but within 3 years	3,088	4,782
After 3 years but within 4 years	2,126	2,102
After 4 years but within 5 years	2,121	2,091
After 5 years	23	-
	<hr/>	<hr/>
	21,176	26,395
	<hr/>	<hr/>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

13. DEFERRED TAX

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

Deferred tax assets

	Unrealized profit HK\$'000	Accruals HK\$'000	Products warranty HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 January 2021	8,131	13,920	16,846	174,379	213,276
Deferred tax (charged)/credited to the statement of profit or loss during the period	(3,627)	(570)	(5,888)	15,459	5,374
Exchange realignment	194	441	440	5,889	6,964
At 31 December 2021	4,698	13,791	11,398	195,727	225,614
Deferred tax (charged)/credited to the statement of profit or loss during the period	174	-	893	(3,697)	(2,630)
Exchange realignment	(214)	(616)	(537)	(8,628)	(9,995)
At 30 June 2022	4,658	13,175	11,754	183,402	212,989

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

13. DEFERRED TAX (continued)

Deferred tax liabilities

	Revaluation of properties HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Fair value adjustments for equity investments designated at fair value HK\$'000	Total HK\$'000
At 1 January 2021	6,253	130,296	11,952	148,501
Deferred tax charged/(credited) to the statement of profit or loss during the year	3,263	(7,554)	5,853	1,562
Deferred tax credited to equity statement during the year	8,347	-	5,653	14,000
At 31 December 2021	17,863	122,742	23,458	164,063
Deferred tax charged/(credited) to the statement of profit or loss during the period	(264)	(3,777)	(153)	(4,194)
Deferred tax credited to equity statement during the period	(542)	-	(640)	(1,182)
At 30 June 2022	17,057	118,965	22,665	158,687

At 30 June 2022, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately HK\$2,159,011,000 at 30 June 2022 (2021: HK\$1,966,476,000).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

14. INTANGIBLE ASSETS

	Operating licence HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
30 June 2022					
Cost at 1 January 2022, net of accumulated amortization	466,528	43,160	1,114	295,465	806,267
Additions	-	11,698	-	37,351	49,049
Disposals	-	(24)	-	-	(24)
Amortization provided during the period	(11,661)	(3,560)	-	(72,147)	(87,368)
Exchange realignment	-	(5,686)	-	(12,122)	(17,808)
At 30 June 2022, net of accumulated amortization	<u>454,867</u>	<u>45,588</u>	<u>1,114</u>	<u>248,547</u>	<u>750,116</u>
At 30 June 2022:					-
Cost	569,533	194,855	1,114	955,504	1,721,006
Accumulated amortization	<u>(114,666)</u>	<u>(149,267)</u>	<u>-</u>	<u>(706,957)</u>	<u>(970,890)</u>
Net carrying amount	<u>454,867</u>	<u>45,588</u>	<u>1,114</u>	<u>248,547</u>	<u>750,116</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

14. INTANGIBLE ASSETS (continued)

	Operating licence HK\$'000	Computer software and technology HK\$'000	Golf club membership HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
31 December 2021					
Cost at 1 January 2021, net of accumulated amortization	489,850	30,445	1,114	360,156	881,565
Additions	-	19,107	-	97,442	116,549
Disposals	-	(2)	-	-	(2)
Amortization provided during the year	(23,322)	(7,624)	-	(172,397)	(203,343)
Exchange realignment	-	1,234	-	10,264	11,498
At 31 December 2021, net of accumulated amortization	<u>466,528</u>	<u>43,160</u>	<u>1,114</u>	<u>295,465</u>	<u>806,267</u>
At 31 December 2021: Cost	569,533	199,680	1,114	961,082	1,731,409
Accumulated amortization	<u>(103,005)</u>	<u>(156,520)</u>	<u>-</u>	<u>(665,617)</u>	<u>(925,142)</u>
Net carrying amount	<u>466,528</u>	<u>43,160</u>	<u>1,114</u>	<u>295,465</u>	<u>806,267</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Prepayments	213,684	324,722
Deposits	148,348	196,282
Other receivables	168,456	139,432
	<u>530,488</u>	<u>660,436</u>
Impairment allowance	<u>(31,845)</u>	<u>(33,442)</u>
	<u>498,643</u>	<u>626,994</u>

Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers. As at 30 June 2022, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 30 June 2022 was 0.10% to 10.00% and 100% for stage 1 and stage 3 respectively (31 December 2021: 0.10% to 10.00% and 100% for stage 1 and stage 3).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

16. INVENTORIES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Raw materials	416,672	395,762
Project materials	39,756	54,534
Work in progress	61,959	58,570
Finished goods	477,847	493,566
Inventories on site	391,811	353,903
	<u>1,388,045</u>	<u>1,356,335</u>

17. TRADE RECEIVABLES

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 of the Group. 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 of the Group. 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:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 3 months	1,776,485	2,137,743
4 to 6 months	340,754	533,755
7 to 12 months	1,134,976	609,352
More than 1 year	1,567,629	1,571,782
	<u>4,819,844</u>	<u>4,852,632</u>
Provision for impairment	(693,555)	(723,496)
	<u>4,126,289</u>	<u>4,129,136</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

17. TRADE RECEIVABLES (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on groupings of various customer segments with similar loss patterns (i.e., geography, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty or there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 30 June 2022		Past due			Total
		Current	Less than 1 year	1-2 years	Over 2 years
Expected credit loss rate		1.57%	7.22%	16.60%	71.56%
Gross carrying amount (HK\$'000)	3,274,448	470,441	293,172	781,783	4,819,844
Expected credit losses (HK\$'000)	51,449	33,976	48,664	559,466	693,555

As at 31 December 2021		Past due			Total
		Current	Less than 1 year	1-2 years	Over 2 years
Expected credit loss rate		1.67%	6.75%	16.84%	72.33%
Gross carrying amount (HK\$'000)	3,320,692	349,435	379,761	802,744	4,852,632
Expected credit losses (HK\$'000)	55,302	23,583	63,956	580,655	723,496

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

18. NOTES RECEIVABLE

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Notes receivable	172,817	102,077
Impairment	(3,037)	(4,968)
	<u>169,780</u>	<u>97,109</u>

At 30 June 2022, notes receivable with an aggregate carrying amount of HK\$22,745,000(31 December 2021: HK\$19,435,000) were endorsed to suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the notes receivable.

All notes receivable of the Group would mature within 12 months.

19. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Cash and bank balances	1,517,520	1,490,718
Restricted bank deposits	145,985	134,095
Time deposits	<u>661,565</u>	<u>664,063</u>
	2,325,070	2,288,876
Less:		
Restricted bank deposits for bills payable	(79,236)	(55,875)
Restricted bank deposits for performance bonds	(66,749)	(78,220)
Time deposits with original maturity of over three months:		
-non-current	(363,007)	(257,405)
-current	<u>(117,099)</u>	<u>(245,148)</u>
Cash and cash equivalents	<u>1,698,979</u>	<u>1,652,228</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Cash and cash equivalents and time deposits		
Denominated in		
-RMB	1,799,775	1,885,422
-USD	155,064	185,229
-HKD	47,795	26,906
-EURO	65,389	1,537
-Others	257,047	189,782
	<u>2,325,070</u>	<u>2,288,876</u>

20. 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:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 3 months	2,445,755	2,429,952
4 to 6 months	770,519	695,099
7 to 12 months	558,518	576,699
More than 1 year	597,995	843,099
	<u>4,372,787</u>	<u>4,544,849</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.

21. OTHER PAYABLES AND ACCRUALS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Accruals	223,592	237,675
Contract liabilities	83,241	96,402
Lease liabilities	41,585	34,079
Other payables	248,002	255,067
	<u>596,420</u>	<u>623,223</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

22. INTEREST-BEARING BANK BORROWINGS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Analyzed into:		
Within 1 year or on demand	851,802	644,739
In the 2nd year	360,000	160,000
In the 3rd to 5th years, inclusive	400,000	640,000
	<u>1,611,802</u>	<u>1,444,739</u>

As at 30 June 2022, loans denominated in Hong Kong dollars and RMB amounted to HK\$1,273,196,000 (31 December 2021: HK\$1,255,975,000) and HK\$338,606,000 (31 December 2021: HK\$188,764,000), respectively.

The Company and nine of its wholly-owned subsidiaries were parties to the bank loans acting as guarantors, to guarantee punctual performance of the obligations under the loan facilities.

Bank loans as at 30 June 2022 bear interest at rates ranging from 1.69% to 3.92% (31 December 2021: from 1.45% to 3.80%) per annum.

23. PROVISION FOR PRODUCT WARRANTIES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
At 1 January	75,290	74,313
Additional provision	9,030	20,358
Amounts utilized during the period	(7,366)	(21,752)
Exchange realignment	(3,547)	2,371
At 30 June / 31 December	<u>73,407</u>	<u>75,290</u>

The Group generally provides warranties of 1 to 2 years to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the period, the provision for product warranties were not discounted as the effect of discounting was not material.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

24. REDEEMABLE PREFERRED SHARES IN A SUBSIDIARY

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Redeemable preferred shares in a subsidiary	<u>325,657</u>	<u>342,771</u>

On 22 December 2020, Comba Network Systems Company Limited ("Comba Network") issued 16,586,416 shares to an investor, which represented 4.5% of the enlarged equity interest in Comba Network for the consideration of HK\$111,908,000.

On 17 June 2021, Comba Network issued 19,166,409 shares to two investors, which represented 4.86% of the enlarged equity interest in Comba Network for the consideration of HK\$156,296,000.

On 22 July 2021, Comba Network issued 7,371,696 shares to two investors, which represented 1.84% of the enlarged equity interest in Comba Network for the consideration of HK\$60,136,000.

The key terms of the preferred shares in a subsidiary are summarised as follows:

(a) Liquidation preference

In the event of any liquidation event (including customarily-deemed-liquidation events such as acquisition), the holders of the preferred shares in a subsidiary would be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to the per share purchase price plus a pre-determined simple interest rate and any declared but unpaid dividends (the "Preference Amount"), proportionately adjusted for share splits, share dividends, recapitalisations and the like.

(b) Redemption rights

If Comba Network fails to consummate a qualified public offering prior to the date of 31 December 2024, at the option of the holder of the preferred shares in a subsidiary, the Group shall redeem all of the outstanding preferred shares in a subsidiary held by the requesting holder, at the price for preferred share issue price and a return at a pre-determined simple interest rate on all accrued but unpaid dividends, proportionally adjusted for share splits, share dividends, recapitalisations and the like. The redemption rights shall be terminated upon the closing of a qualified public offering.

The redeemable preferred shares in a subsidiary were designated as financial liabilities at fair value through profit or loss on initial recognition. At the end of the reporting period subsequent to initial recognition, all redeemable preferred shares in a subsidiary are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

24. REDEEMABLE PREFERRED SHARES IN A SUBSIDIARY (continued)

(b) Redemption rights

The movements of the preferred shares in a subsidiary are set out below:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
At the beginning of the period	342,771	111,908
Additions	-	216,432
Fair value (gains)/losses	(1,862)	6,509
Exchange realignment	(15,252)	7,922
At 31 December	<u>325,657</u>	<u>342,771</u>

The Group applied the discounted cash flow method to determine the underlying equity value of the Comba Network and adopted the option-pricing method and equity allocation model to determine the fair value of the redeemable preferred shares in a subsidiary, which were revalued at the end of the reporting period by independent professionally qualified valuers. Key assumptions are set out below:

	30 June 2022	31 December 2021
Discount rate	16%	17%
Risk-free interest rate	2.377%	2.458%
Discount for lack of marketability	18%	20%
Volatility	44.72%	46.78%

The discount rate was estimated by the weighted average cost of capital as of each appraisal date. The Group estimated the risk-free interest rate based on the yield of Chinese Treasury with a maturity life equal to period from the respective appraisal dates to expected liquidation date. Volatility was estimated at the dates of appraisal based on average of historical volatilities of comparable companies in the same industry for a period from the respective appraisal dates to expected liquidation date.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

25. SHARE CAPITAL

	Notes	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorized:			
1 January 2021, 31 December 2021, 1 January 2022 and 30 June 2022		<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid or credited as fully paid:			
As at 1 January 2021		2,750,593,918	275,060
Exercise of share options	(i)	<u>28,317,250</u>	<u>2,832</u>
As at 31 December 2021 and 1 January 2022		2,778,911,168	277,892
Exercise of share options	(ii)	634,000	63
As at 30 June 2022		<u>2,779,545,168</u>	<u>277,955</u>

As at 30 June 2022, the total number of issued ordinary shares of the Company was 2,779,545,168 shares (31 December 2021: 2,778,911,168 shares) which included 16,637,136 shares (31 December 2021: 16,637,136 shares) held under the share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (the "Adoption Date") and renewed on 25 March 2021 (note 26(b)).

Notes:

- (i) During the year ended 31 December 2021, the subscription rights attaching to 21,648,250 share options, 6,105,500 share options and 563,500 share options were exercised at the adjusted exercise prices of HK\$1.255 per share, HK\$1.170 per share and HK\$1.890 per share respectively, resulting in the issue of 28,317,250 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$35,159,000.
- (ii) During the six months ended 30 June 2022, the subscription rights attaching to 596,000 share options and 38,000 share options were exercised at the exercise prices of HK\$1.170 per share and HK\$1.890 per share respectively, resulting in the issue of 634,000 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$769,000.

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME

(a) Share Option Scheme

The Company operates a share option scheme adopted on 3 June 2013 (the “2013 Scheme”) which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for ten years from that date and will expire on 3 June 2023.

The purpose of the 2013 Scheme is to provide incentives and rewards to eligible persons for their contribution or potential contribution to the success of the Group’s operations. Eligible persons of the 2013 Scheme include (i) directors (including independent non-executive directors) or employees of, or individual for the time being seconded to work for; (ii) holders of any securities issued by; (iii) business or joint venture partners, contractors, agents or representatives of; (iv) persons or entities that provide research, development or technological support or any advisory, consultancy or professional services incidental to the business of the Group to; (v) investors, vendors, suppliers, developers or licensors of; or (vi) customers, licencees (including sub-licencees), wholesalers, retailers, traders or distributors of goods or services of, any member of the Group, the Company’s controlling shareholders or companies controlled by the Company’s controlling shareholders.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme, the Share Award Scheme (note 26(b)) and any other incentive or share option schemes of the Company shall not exceed 30% of the shares of the Company in issue at any time. The maximum number of shares already issued and to be issued upon exercise of share options granted to each eligible person under the 2013 Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding share options) in any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

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

The exercise price of the share options granted under the 2013 Scheme is determinable by the directors of the Company, but shall be at least the higher of: (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer of the share options; and (iii) the average closing prices of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the share options.

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

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

The following number of share options were outstanding under the 2013 Scheme during the six months ended 30 June 2022:

	For the six months ended 30 June			
	2022		2021	
	Weighted average exercise price of each share option HK\$	Number of share options	Weighted average exercise price of each share option HK\$	Number of share options
As at 1 January	1.789	154,473,000	1.574	138,060,250
Exercised during the period	1.213	(634,000)	1.248	(7,329,750)
Forfeited during the period	1.917	(1,274,500)	1.652	(950,000)
Granted during the period	-	-	2.030	50,000,000
As at 30 June	<u>1.790</u>	<u>152,564,500</u>	<u>1.714</u>	<u>179,780,500</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

Movements in the number of the Company's share options under the 2013 Scheme during the six months ended 30 June 2022 are as follows:

Name or category of participant	Number of share options					At 30 June 2021	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2022	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period					
Executive Directors										
Mr. Fok Tung Ling	-	-	-	-	-	-	-	-	-	-
Mr. Zhang Yue Jun	-	-	-	-	-	-	-	-	-	-
Mr. Xu Huijun	5,000,000	-	-	-	-	5,000,000	28 Aug 18	28 Aug 19 - 27 Aug 23	1,300	-
	10,000,000	-	-	-	-	10,000,000	8 Apr 19	8 Apr 20-7 Apr 24	1,890	-
	4,000,000	-	-	-	-	4,000,000	13 Apr 21	13 Apr 22-12 Apr 26	2,030	-
	19,000,000	-	-	-	-	19,000,000				-
Mr. Chang Fei Fu	500,000	-	-	-	-	500,000	10 Apr 18	10 Apr 19 - 9 Apr 2	1,170	-
	5,000,000	-	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-
	2,000,000	-	-	-	-	2,000,000	13 Apr 21	13 Apr 22-12 Apr 26	2,030	-
	7,500,000	-	-	-	-	7,500,000				-
Mr. Bu Binlong	1,800,000	-	-	-	-	1,800,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1,170	-
	5,000,000	-	-	-	-	5,000,000	8 Apr 19	8 Apr 20 - 7 Apr 24	1,890	-
	2,000,000	-	-	-	-	2,000,000	13 Apr 21	13 Apr 22-12 Apr 26	2,030	-
	8,800,000	-	-	-	-	8,800,000				-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

Movements in the number of the Company's share options under the 2013 Scheme during the six months ended 30 June 2022 are as follows: (continued)

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
	At 1 January 2021	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Executive Directors									
Ms. Huo Xinru	1,050,000	-	-	-	-	10 Apr 18	10 Apr 19 - 9 Apr 23	1.170	-
	5,000,000	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1.890	-
	2,000,000	-	-	-	-	13 Apr 21	13 Apr 22-12 Apr 26	2.030	-
	8,050,000	-	-	-	-				-
Non-executive Director									
Mr. Wu Tielong	1,800,000	-	-	-	-	10 Apr 18	10 Apr 19 - 9 Apr 23	1.170	-
	5,000,000	-	-	-	-	8 Apr 19	8 Apr 20 - 7 Apr 24	1.890	-
	6,800,000	-	-	-	-				-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

Movements in the number of the Company's share options under the 2013 Scheme during the six months ended 30 June 2022 are as follows: (continued)

Name or category of participant	At 1 January 2021	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 30 June 2021	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share	Weighted average closing price of the shares immediately before the dates on which the share options were exercised HK\$ per share
Independent non-executive Directors										
Mr. Lau Siu Ki, Kevin	50,000	-	-	-	-	50,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1.170	-
	200,000	-	-	-	-	200,000	8 Apr 19	8 Apr 20-7 Apr 24	1.890	-
	250,000	-	-	-	-	250,000				-
Dr. Lin Jin Tong	200,000	-	-	-	-	200,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1.170	-
	200,000	-	-	-	-	200,000	8 Apr 19	8 Apr 20-7 Apr 24	1.890	-
	400,000	-	-	-	-	400,000				-
Ms. Ng Yi Kum	200,000	-	-	-	-	200,000	8 Apr 19	8 Apr 20-7 Apr 24	1.890	-
Ms. Wong Lok Lam	-	-	-	-	-	-				
Other employees in aggregate	21,906,500	-	(596,000)	-	(134,500)	21,176,000	10 Apr 18	10 Apr 19 - 9 Apr 23	1.170	1.6820
	41,566,500	-	(38,000)	-	(200,000)	41,328,500	8 Apr 19	8 Apr 20 - 7 Apr 24	1.890	1.9900
	40,000,000	-	-	-	(940,000)	39,060,000	13 Apr 21	13 Apr 22-12 Apr 26	2.030	-
	103,473,000	-	(634,000)	-	(1,274,500)	101,564,500				1.7005
	154,473,000	-	(634,000)	-	(1,274,500)	152,564,500				

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

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

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

30 June 2022 Number of share options	Exercise price of share options HK\$ per share	Exercise period
26,576,000	1.170	10 April 2019 to 9 April 2023
5,000,000	1.300	28 August 2019 to 27 August 2023
71,928,500	1.890	8 April 2020 to 7 April 2024
49,060,000	2.030	13 April 2022 to 12 April 2026
<u>152,564,500</u>		

30 June 2021 Number of share options	Exercise price of share options HK\$ per share	Exercise period
21,375,500	1.255	26 August 2017 to 25 August 2021
30,834,500	1.170	10 April 2019 to 9 April 2023
5,000,000	1.300	28 August 2019 to 27 August 2023
72,570,500	1.890	8 April 2020 to 7 April 2024
50,000,000	2.030	13 April 2022 to 12 April 2026
<u>179,780,500</u>		

The expense recognized in the condensed consolidated statement of profit or loss for employee services received during the six months ended 30 June 2022 is approximately HK\$10,088,000 (six months ended 30 June 2021: HK\$11,481,000).

At the end of the reporting period, the Company had 152,564,500 share options outstanding under the 2013 Scheme, of which 95,249,500 were vested and 57,315,000 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 152,564,500 additional ordinary shares of the Company and additional share capital of approximately HK\$15,256,450 and share premium of approximately HK\$ 257,874,135 (before issue expenses).

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(a) Share Option Scheme (continued)

As at the date of approval of the interim condensed consolidated financial statements, the Company had 151,590,500 share options outstanding under the 2013 Scheme, which represented approximately 5.45% of the Company's shares in issue as at that date.

As at the date of approval of the interim condensed consolidated financial statements, the total number of securities available for issue under the 2013 Scheme was 270,566,986 Shares, which represented approximately 9.73% of the Company's shares in issue as at that date.

According to the scheme mandate limit of the 2013 Scheme as refreshed at the annual general meeting held on 28 May 2018, the Company may further grant 246,516,486 share options (being 10% of the total number of issued shares of the Company as at 28 May 2018). Since 5,000,000 share options, 80,000,000 share options and 50,000,000 share options were granted on 28 August 2018, 8 April 2019 and 13 April 2021 respectively, the total number of unissued share options under the scheme mandate limit became 111,516,486, representing approximately 4.01% of the Company's shares in issue as at 30 June 2022.

(b) Share Award Scheme

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

Eligible persons of the Share Award Scheme include (i) the executives, officers, employees, directors (including executive, non-executive and independent non-executive directors) of the Group; (ii) holders of any securities issued by any member of the Group or any controlling shareholder; (iii) business or joint venture partners, contractors, agents or representatives, persons that provide research, development or technological support or any advisory, consultancy, professional services to the business of the Group, investors, vendors, suppliers, developers or licensors of, or customers, licencees (including sub-licencees), wholesalers, retailers, traders or distributors of goods or services of members of the Group.

Unless it is early terminated by the board of directors of the Company (the "Board") in accordance with the terms therein, the Share Award Scheme shall be valid and effective until the date falling on the 10th anniversary of the Adoption Date.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(b) Share Award Scheme (continued)

The Board has resolved to renew the term of Share Award Scheme for a term of ten years as from 25 March 2021 to 25 March 2031. Please refer to the announcement of the Company dated 25 March 2021 for further details.

Pursuant to the Share Award Scheme, awarded shares (the “Awarded Shares”) may be (i) acquired by the trustee (the “Trustee”) and/or the administration committee (the “Administration Committee”) of the Share Award Scheme at the cost of the Company at the prevailing market price and be held on trust for the Selected Persons; or (ii) allotted and issued as new shares of the Company to the Trustee/Administration Committee under general mandates granted or to be granted by the shareholders at general meetings of the Company from time to time and be held on trust for Selected Persons.

The Board shall not make any further award of the Awarded Shares which will result in the number of the shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company as at the Adoption Date (or the refreshed or amended limit as approved by the shareholders in any general meeting of the Company). The maximum number of shares which may be awarded to a Selected Person under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date (or the refreshed or amended limit as approved by the shareholders in any general meeting of the Company), which would be 66,578,998 shares of the Company. The aforesaid limit may be refreshed or amended by approval of the shareholders in any general meeting of the Company. Nevertheless, the total number of the Awarded Shares which may be issued under the Share Award Scheme and the exercise of all options to be granted under other incentive and option schemes of the Company (including the 2013 Scheme) as so refreshed shall not exceed 10% of the shares in issue as at the date of approval of the refreshed limit. Awarded Shares or share options previously granted under the Share Award Scheme or the 2013 Scheme (including those vested, outstanding, cancelled and lapsed) will not be counted for the purpose of calculating the limit as refreshed. The Company will not issue any Awarded Shares under the Share Award Scheme which would result in the total number of the Awarded Shares together with shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme or any other incentive or share option schemes of the Company representing in aggregate over 30% of the shares in issue as at the date of such grant.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(b) Share Award Scheme (continued)

The Awarded Shares and the related income thereof shall vest in accordance with the timetable and conditions as imposed by the Board at its absolute discretion pursuant to the Share Award Scheme.

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new shares of the Company pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. All such 26,000,000 Awarded Shares were vested/lapsed.

Movements in the number of treasury shares held for the Share Award Scheme for the six months ended 30 June 2021 and 2022 are as follows:

	Treasury shares held for the Share Award Scheme
As at 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	<u>16,637,136</u>

No Awarded Shares held for the Selected Persons were outstanding as at 30 June 2022. No Awarded Shares were granted to any Selected Persons and no Awarded Shares were cancelled/lapsed during the six months ended 30 June 2022.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(c) Share Incentive Scheme

On 29 May 2020, the Company adopted a share incentive scheme (the “Scheme”) to award, the shares of Comba Network Systems Company Limited (“Comba Network”), an indirect subsidiary of the Company, to directors, employees and consultants of the Group to recognise and reward their contributions to the Group.

Comba Business Consulting (Guangzhou) Limited# (京信企業諮詢(廣州)有限公司) (“Comba Consulting”, an indirect wholly-owned subsidiary of the Company), acts as a general partner, together with the selected participants (the “Selected Participants”) in the Scheme who act as limited partners, have set up a total of three Non-G Partnerships (as defined below), four Existing G Partnerships (as defined below) and four New G Partnerships (as defined below) in the People’s Republic of China (the “PRC”).

In June 2020, Comba Consulting, as a general partner, together with the Selected Participants, who act as limited partners, have set up Xin Han Tong No.2, Xin Han Tong No.7 and Xin Han Tong No.8 (the “Non-G Partnerships”) under the Non-G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. Upon the completion of the establishment, the Selected Participants under Non-G Partnerships consist of four directors of the Company, five directors of the relevant subsidiaries of the Company, 98 employees of the Group (excluding Comba Network and its subsidiaries, collectively the “Comba Network Group”), and three consultants of the Group (excluding Comba Network Group). Non-G Partnerships purchased certain existing shares of Comba Network from Comba Telecom Systems Limited, a wholly-owned subsidiary of the Company, at the total consideration of RMB57,700,000.

In June 2020, Comba Consulting, as a general partner, together with the Selected Participants, who act as limited partners, have also set up Xin Han Tong No.1, Xin Han Tong No.3, Xin Han Tong No.5 and Xin Han Tong No.6 (the “Existing G Partnerships”) under the G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. Upon the completion of the establishment, the Selected Participants under the Existing G Partnerships consist of one director of the Company, three directors of the relevant subsidiaries of the Company as well as 119 employees of the Comba Network Group. The Existing G Partnerships subscribed for and Comba Network issued certain new shares at the total consideration of RMB54,400,000.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. SHARE OPTION SCHEME, SHARE AWARD SCHEME AND SHARE INCENTIVE SCHEME (continued)

(c) Share Incentive Scheme (continued)

Pursuant to the partnership interest transfer agreements dated 12 April 2021 and entered into between (i) Comba Consulting as general partner (the “G General Partner”) of the Existing G Partnerships and (ii) certain existing limited partners in the Existing G Partnerships which consist of a director of the Company together with 100 employees and five directors in the Comba Network Group (the “Existing G Limited Partners”) and certain new limited partners which consist of 10 employees in the Comba Network Group (the “Additional G Limited Partners”), the G General Partner has transferred its limited partnership interests in the Existing G Partnerships in the aggregate amount of RMB14,000,000 to certain Existing G Limited Partners and Additional G Limited Partners, as limited partners of the Existing G Partnerships, including RMB13,160,000 to certain Existing G Limited Partners and RMB840,000 to the Additional G Limited Partners.

On 23 March 2021, Comba Consulting has further set up Xin Han Tong No.9, Xin Han Tong No.10, Xin Han Tong No.11 and Xin Han Tong No.12 (collectively the “New G Partnerships”) in the PRC under the New G Limited Partnership agreements to hold the relevant incentive shares for and on behalf of the Selected Participants. Upon the completion of the establishment, the Selected Participants under the New G Partnerships consist of 174 employees of the Comba Network Group.

Pursuant to the capital increase agreement entered into between the New G Partnerships and Comba Network on 12 April 2021, the New G Partnerships subscribed for and Comba Network issued new shares at the total consideration of RMB20,000,000, including RMB19,880,000 contributed by the limited partners in the New G Partnerships as limited partners, and RMB120,000 contributed by Comba Consulting as general partner, respectively.

Each of the Non-G Partnerships, Existing G Partnerships and New G Partnerships has been accounted for as a subsidiary of the Company and its financial results have been consolidated into the accounts of the Company. As at 30 June 2022, the Non-G Partnerships, Existing G Partnerships and New G Partnerships hold approximately 4.71%, 4.44% and 1.63% of the equity interest of Comba Network, respectively.

The Group had recorded the expenses associated with the shares granted under the Share Incentive Scheme of HK\$14,574,000 in the statement of profit or loss in the first half of 2022.

For details, please refer to the announcements of the Company dated 10 June 2020, 24 June 2020, 12 April 2021 and 20 May 2021.

for identification purpose

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

27. RESERVES

The amounts of the Group's reserves and the movements therein for the period are presented in the consolidated statement of changes in equity.

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities were as follows:

30 June 2022	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2022	1,444,739	94,379
Changes from financing cash flows	183,324	(32,991)
New leases	-	31,462
Foreign exchange movement	(16,261)	(7,574)
Interest expense	-	1,036
At 30 June 2022	<u>1,611,802</u>	<u>86,312</u>
31 December 2021	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2021	1,382,473	157,623
Changes from financing cash flows	57,616	(39,729)
New leases	-	35,541
Foreign exchange movement	4,650	(4,385)
Interest expense	-	3,264
COVID-19-related rent concessions from lessors	-	(551)
Reassessment and revision of lease terms	-	(57,384)
At 31 December 2021	<u>1,444,739</u>	<u>94,379</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Within operating activities	992	12,778
Within financing activities	<u>32,991</u>	<u>39,729</u>
	<u>33,983</u>	<u>52,507</u>

29. CONTINGENT LIABILITIES

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

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Guarantees given to banks in respect of performance bonds	<u>283,080</u>	<u>276,836</u>

30. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Contracted, but not provided for: Plant and machinery	<u>12,856</u>	<u>8,566</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

31. RELATED PARTY TRANSACTIONS

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

(b) Compensation of key management personnel of the Group (all being the Directors):

	For the six months ended 30 June	
	2022	2021
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Short-term employee benefits	7,667	8,371
Pension scheme contributions	105	112
Equity-settled share option expense	2,663	3,879
Share based payment expense	1,736	1,591
	<u>12,171</u>	<u>13,953</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

30 June 2022

Financial assets

	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	2,291	-	2,291
Equity investments at fair value through other comprehensive income	-	-	57,527	57,527
Equity investments at fair value through profit or loss	-	93,443	-	93,443
Trade receivables	4,126,289	-	-	4,126,289
Notes receivable	169,780	-	-	169,780
Financial assets included in prepayments, other receivables and other assets	316,804	-	-	316,804
Restricted bank deposits	145,985	-	-	145,985
Time deposit	480,106	-	-	480,106
Cash and cash equivalents	1,698,979	-	-	1,698,979
	<u>6,937,943</u>	<u>95,734</u>	<u>57,527</u>	<u>7,091,204</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

<u>Financial liabilities</u>	Financial liabilities at amortized cost HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	325,657	325,657
Trade and bills payables	4,372,787	-	4,372,787
Financial liabilities included in other payables and accruals	292,929	-	292,929
Interest-bearing bank borrowings	1,611,802	-	1,611,802
Lease liabilities	44,727	-	44,727
	<u>6,322,245</u>	<u>325,657</u>	<u>6,647,902</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

31 December 2021

Financial assets

	Financial assets at amortized cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	-	3,102	-	3,102
Equity investments at fair value through other comprehensive income	-	-	62,813	62,813
Equity investments at fair value through profit or loss	-	90,534	-	90,534
Trade receivables	4,129,136	-	-	4,129,136
Notes receivable	97,109	-	-	97,109
Financial assets included in prepayments, other receivables and other assets	335,714	-	-	335,714
Restricted bank deposits	134,095	-	-	134,095
Time deposit	502,553	-	-	502,553
Cash and cash equivalents	1,652,228	-	-	1,652,228
	<u>6,850,835</u>	<u>93,636</u>	<u>62,813</u>	<u>7,007,284</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

<u>Financial liabilities</u>	Financial liabilities at amortized cost HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	342,771	342,771
Trade and bills payables	4,544,849	-	4,544,849
Financial liabilities included in other payables and accruals	342,568	-	342,568
Interest-bearing bank borrowings	1,444,739	-	1,444,739
Lease liabilities	60,300	-	60,300
	<u>6,392,456</u>	<u>342,771</u>	<u>6,735,227</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The fair values of the non-current portion of restricted bank deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

As at 30 June 2022 and 31 December 2021, the carrying amount of the Group's financial assets and financial liabilities approximate to their fair values.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2022 and 31 December 2021:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/S multiple of peers	2.53 to 11.34 (2021: 0.78 to 25.46)	10% (2021: 10%) increase/decrease in multiple would result in increase/decrease in fair value by HK\$586,000 (2021: HK\$906,000)
		Discount for lack of marketability	30% (2021: 30%)	10% (2021: 10%) increase/decrease in discount would result in decrease/increase in fair value by HK\$251,000 (2021: HK\$388,000)
Redeemable preferred shares in a subsidiary	Equity valuation allocation model	Fair value of equity value	NA	5% (2021: 5%) increase/decrease in fair value per share would result in increase/decrease in fair value by HK\$16,283,000 (2021: HK\$17,139,000)

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2022

	Fair value measurement using			Total HK\$'000 (Unaudited)
	Quoted prices in active markets (Level 1) HK\$'000 (Unaudited)	Significant observable inputs (Level 2) HK\$'000 (Unaudited)	Significant unobservable inputs (Level 3) HK\$'000 (Unaudited)	
Financial assets designated at fair value through profit or loss	-	2,291	-	2,291
Equity investments designated at fair value through other comprehensive income	-	50,861	6,666	57,527
Equity investments designated at fair value through profit or loss	-	88,429	5,014	93,443
	-	141,581	11,680	153,261

As at 31 December 2021

	Fair value measurement using			Total HK\$'000 (Audited)
	Quoted prices in active markets (Level 1) HK\$'000 (Audited)	Significant observable inputs (Level 2) HK\$'000 (Audited)	Significant unobservable inputs (Level 3) HK\$'000 (Audited)	
Financial assets designated at fair value through profit or loss	-	3,102	-	3,102
Equity investments designated at fair value through other comprehensive income	-	53,241	9,572	62,813
Equity investments designated at fair value through profit or loss	-	86,436	4,098	90,534
	-	142,779	13,670	156,449

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(continued)**Fair value hierarchy (continued)**Liabilities measured at fair value:

As at 30 June 2022

	Fair value measurement using			Total HK\$'000 (Unaudited)
	Quoted prices in active markets (Level 1) HK\$'000 (Unaudited)	Significant observable inputs (Level 2) HK\$'000 (Unaudited)	Significant unobservable inputs (Level 3) HK\$'000 (Unaudited)	
Redeemable preferred shares in a subsidiary	-	-	325,657	325,657

As at 31 December 2021

	Fair value measurement using			Total HK\$'000 (Audited)
	Quoted prices in active markets (Level 1) HK\$'000 (Audited)	Significant observable inputs (Level 2) HK\$'000 (Audited)	Significant unobservable inputs (Level 3) HK\$'000 (Audited)	
Redeemable preferred shares in a subsidiary	-	-	342,771	342,771

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2021: Nil).

As at 30 June 2022 and 31 December 2021, the fair value of the unlisted equity investments designated at fair value through other comprehensive income was based on transaction price or a market-based valuation technique. The fair value of the unlisted equity investments designated at fair value through profit or loss was based on transaction price or a market-based valuation technique. The fair values of financial assets designated at fair value through profit or loss were measured using valuation models and various market observable inputs, including tenor, volatility and spot rate.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
30 June 2022			
Hong Kong dollars	50	(10,356)	-
RMB	50	(1,160)	-
Hong Kong dollars	(50)	10,356	-
RMB	(50)	1,160	-
30 June 2021			
Hong Kong dollars	50	(3,011)	-
RMB	50	(577)	-
Hong Kong dollars	(50)	3,011	-
RMB	(50)	577	-

* Excluding retained profits

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 15.8% (six months ended 30 June 2021:14.4%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 97.8% (six months ended 30 June 2021: 97.3%) of costs were denominated in the units' functional currencies.

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

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
30 June 2022			
If Hong Kong dollar weakens against US\$	5	19,137	-
If Hong Kong dollar strengthens against US\$	(5)	(19,137)	-
If Brazil dollar weakens against US\$	5	(10,256)	-
If Brazil dollar strengthens against US\$	(5)	10,256	-
If RMB weakens against US\$	5	11,555	-
If RMB strengthens against US\$	(5)	(11,555)	-
If Hong Kong dollar weakens against AED	5	(19,084)	-
If Hong Kong dollar strengthens against AED	(5)	19,084	-

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in US\$/AED rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease)) in equity* HK\$'000
30 June 2021			
If Hong Kong dollar weakens against US\$	5	10,129	-
If Hong Kong dollar strengthens against US\$	(5)	(10,129)	-
If Brazil dollar weakens against US\$	5	(11,015)	-
If Brazil dollar strengthens against US\$	(5)	11,015	-
If RMB weakens against US\$	5	12,330	-
If RMB strengthens against US\$	(5)	(12,330)	-
If Hong Kong dollar weakens against AED	5	(17,874)	-
If Hong Kong dollar strengthens against AED	(5)	17,874	-

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and period-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and period-end staging classification as at 30 June 2022. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (Continued)

As at 30 June 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	Total HK\$'000
Trade receivables*	-	-	-	4,819,844	4,819,844
Notes receivable	-	-	-	172,817	172,817
Financial assets included in prepayments, other receivables and other assets	286,358	-	30,446	-	316,804
Restricted bank deposits	145,985	-	-	-	145,985
Time deposit	480,106	-	-	-	480,106
Cash and cash equivalents	1,698,979	-	-	-	1,698,979
	<u>2,611,428</u>	<u>-</u>	<u>30,446</u>	<u>4,992,661</u>	<u>7,634,535</u>

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	Total HK\$'000
Trade receivables*	-	-	-	4,852,632	4,852,632
Notes receivable	-	-	-	102,077	102,077
Financial assets included in prepayments, other receivables and other assets	303,845	-	31,869	-	335,714
Restricted bank deposits	134,095	-	-	-	134,095
Time deposit	502,553	-	-	-	502,553
Cash and cash equivalents	1,652,228	-	-	-	1,652,228
	<u>2,592,721</u>	<u>-</u>	<u>31,869</u>	<u>4,954,709</u>	<u>7,579,299</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group has certain concentrations of credit risk as 28% (31 December 2021: 28%) and 71% (31 December 2021: 70%) of the Group's trade receivables were due from the Group's largest customer and the 5 largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables is disclosed in note 17 to the financial statements.

Liquidity risk

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

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

	30 June 2022				
	On demand HK\$'000	Within 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	-	415,466	-	415,466
Interest-bearing bank borrowings	408,840	482,116	791,888	-	1,682,844
Trade and bills payables	-	4,372,787	-	-	4,372,787
Financial liabilities included in other payables and accruals	-	292,929	-	-	292,929
Lease liabilities	-	-	40,823	9,691	50,514
	<u>408,840</u>	<u>5,147,832</u>	<u>1,248,177</u>	<u>9,691</u>	<u>6,814,540</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	31 December 2021				
	On demand HK\$'000	Within 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Redeemable preferred shares in a subsidiary	-	-	424,752		424,752
Interest-bearing bank borrowings	321,399	352,751	829,987	-	1,504,137
Trade and bills payables	-	4,544,849	-	-	4,544,849
Financial liabilities included in other payables and accruals	-	342,568	-	-	342,568
Lease liabilities	-	-	52,961	13,762	66,723
	<u>321,399</u>	<u>5,240,168</u>	<u>1,307,700</u>	<u>13,762</u>	<u>6,883,029</u>

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the six months ended 30 June 2022 and the year ended 31 December 2021.

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

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Interest-bearing bank borrowings	<u>1,611,802</u>	<u>1,444,739</u>
Total assets	<u>11,308,661</u>	<u>11,512,579</u>
Gearing ratio	<u>14.3%</u>	<u>12.5%</u>

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

35. EVENT 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.

36. APPROVAL OF THE FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorized for issue by the Board on 30 December 2022.

APPENDIX C – COMPARISON OF SELECTED CAYMAN ISLANDS CORPORATE LAW PROVISIONS AND SINGAPORE CORPORATE LAW PROVISIONS

COMPARISON OF CAYMAN ISLANDS AND SINGAPORE CORPORATE LAW

The following table sets forth a summary of certain differences between the provisions of the laws of the Cayman Islands applicable to our Company (namely, the Cayman Islands Companies Act (as revised)) and the laws applicable to Singapore-incorporated companies (namely, the Singapore Companies Act) and their shareholders. The summaries below are not to be regarded as advice on Cayman Islands corporate law or the differences between it and the laws of any jurisdiction, including, without limitation, the Singapore Companies Act. The summaries below do not purport to be a comprehensive description of all of the rights and privileges of shareholders conferred by the Cayman Islands Companies Act as compared to the Singapore Companies Act that may be relevant to shareholders and prospective investors. In addition, shareholders and prospective investors should also note that the laws applicable to Singapore-incorporated companies and Cayman Islands exempted companies may change, whether as a result of proposed legislative reforms to the Singapore Companies Act or the Cayman Islands Companies Act, as the case may be, or otherwise. In addition, the summaries below do not describe the regulations and requirements prescribed by the Listing Manual.

Our Company is incorporated in the Cayman Islands as an exempted company and is therefore subject to the Cayman Islands Companies Act. Our Company's corporate affairs are governed by our Memorandum and Articles of Association and the provisions of applicable Cayman Islands laws, including Cayman Islands common law.

	Cayman Islands Corporate Law	Singapore Corporate Law
Power of Directors to Allot and Issue Shares	The Cayman Islands Companies Act (as revised) has no provisions regulating the power of directors in respect of allotment and issue of shares. The directors would have the power to authorise the allotment and issue of shares if such power is provided in the articles of association of the Company.	<p>The power to issue shares in a company is usually vested with the directors of that company, subject to any restrictions in the constitution of that company.</p> <p>However, notwithstanding anything to the contrary in the constitution of a company, prior approval of the company at a general meeting is required to authorise the directors to exercise any power of the company to issue shares, or the share issue is void under the Singapore Companies Act. Such approval may be confined to a particular exercise of that power or may apply to the exercise of that power generally and, once given, will only continue in force until the conclusion of the annual general meeting commencing next after the date on which the approval was given or the expiration of the period within which the next annual general meeting after that date is required by law to be held, whichever is the earlier, provided that such approval had not been previously revoked or varied by the company in a general meeting.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Power of Directors to Dispose of the Issuer's or any of its Subsidiaries' Assets	The Cayman Islands Companies Act (as revised) contains no regulations or specific restrictions on the powers of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director, chief executive officer and secretary, in exercising such officer's powers and discharging their duties (including their fiduciary duties), must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.	The Singapore Companies Act provides that the business of a company is to be managed by or under the direction or supervision of the directors. The directors may exercise all the powers of a company except any power that the Singapore Companies Act or the constitution of the company require the company to exercise in general meeting. Under the Singapore Companies Act, prior approval of the company at a general meeting is required before the directors can carry into effect any proposals for disposing of the whole or substantially the whole of the company's undertaking or property notwithstanding anything in the company's constitution.
Giving of Financial Assistance to Purchase the Issuer's or its Holding Company's Shares	There is no statutory restriction under the Cayman Islands Companies Act (as revised) on the provision of financial assistance by a Cayman Islands exempted company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a Cayman Islands exempted company, subject to its articles of association, may provide financial assistance if the directors of the company act in accordance with their fiduciary duties such as to consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the best interests of the company, that such assistance can properly be given. Such assistance should be on an arm's length basis.	Generally, a public company or a company whose holding company or ultimate holding company is a public company is prohibited from giving any financial assistance to any person directly or indirectly for the purpose of, or in connection with, the acquisition or proposed acquisition of that company's shares or shares in its holding company or ultimate holding company. Financial assistance includes the making of a loan, the giving of a guarantee, the provision of security, the release of an obligation or the release of a debt or otherwise.

	Cayman Islands Corporate Law	Singapore Corporate Law
		<p>Certain transactions are specifically provided by the Singapore Companies Act as transactions not to be prohibited. These include, among others: (i) a distribution of a company's assets by way of dividends lawfully made; (ii) a distribution in the course of a company's winding up; (iii) a payment made by a company pursuant to a reduction of capital in accordance with the Singapore Companies Act; (iv) the giving by a company in good faith and in the ordinary course of commercial dealing of any representation, warranty or indemnity in relation to an offer to the public of, or an invitation to the public to subscribe for or purchase shares in the company; (v) and the entering into by the company, in good faith and in the ordinary course of commercial dealing, of an agreement with a subscriber for shares in the company permitting the subscriber to make payments for the shares by instalments.</p> <p>The Singapore Companies Act further provides that a company can give financial assistance in certain circumstances, including but not limited to: (a) where the amount of financial assistance, together with any other financial assistance given by the company under this exception repayment of which remains outstanding, does not exceed 10.0% of the aggregate of the total paid-up capital and reserves of the company as disclosed in the most recent financial statements of the company and the company receives fair value in connection with the financial assistance; (b) where the financial assistance does not materially prejudice the interests of the company, its shareholders or the company's ability to pay its creditors; and (c) where the company, by special resolution, resolves to give financial assistance for the purpose of, or in connection with, that acquisition, provided that certain conditions and procedures under the Singapore Companies Act are also complied with.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
		Where the company is a subsidiary of a listed corporation or a subsidiary whose ultimate holding company is incorporated in Singapore, the listed corporation or the ultimate holding company, as the case may be, is also required to pass a special resolution to approve the giving of the financial assistance.
Loans to Directors	There is no express provision under the Cayman Islands Companies Act (as revised) prohibiting the making of loans by a Cayman Islands exempted company to any of its directors, unless otherwise prescribed by the company's memorandum and articles of association.	<p>A company (other than an exempt private company) is prohibited from, among others, (a) making a loan or quasi-loan⁽¹⁾ to a director of the company or a director of a related company (a "relevant director") (and to the spouse or natural, step or adopted children of any such director); (b) entering into any guarantee or providing any security in connection with a loan or quasi-loan made to a relevant director by any other person; (c) entering into a credit transaction⁽²⁾ as creditor for the benefit of a relevant director; and (d) entering into any guarantee or providing any security in connection with a credit transaction entered into by any person for the benefit of a relevant director (the "restricted transactions"), except in the following circumstances, where a transaction which would otherwise be a restricted transaction is:</p> <ul style="list-style-type: none"> • (subject to, among others, the approval of the company in a general meeting) made to or for the benefit of a relevant director to meet expenditure incurred or to be incurred for the purposes of the company or for the purpose of enabling him to properly perform his duties as an officer of the company;

Notes:

- (1) A quasi-loan means a transaction under which one party (the "**creditor**") agrees to pay, or pays otherwise than in pursuance of an agreement, a sum for another (the "**borrower**") or agrees to reimburse, or reimburses otherwise than in pursuance of an agreement, expenditure incurred by another party for the borrower: (i) on terms that the borrower (or a person on his behalf) will reimburse the creditor; or (ii) in circumstances giving rise to a liability on the borrower to reimburse the creditor.
- (2) A credit transaction means a transaction under which one party (the "**creditor**"): (i) supplies any goods or disposes of any immovable property under a hire-purchase agreement or a conditional sale agreement; (ii) leases or hires any immovable property or goods in return for periodic payments; or (iii) otherwise disposes of immovable property or supplies goods or services on the understanding that payment (whether in a lump sum or instalments or by way of periodic payments or otherwise) is to be deferred.

	Cayman Islands Corporate Law	Singapore Corporate Law
		<ul style="list-style-type: none"> • (subject to, among others, the approval of the company in a general meeting) made to or for the benefit of a relevant director who is engaged in full-time employment of the company or a related corporation, as the case may be, for the purpose of purchasing or otherwise acquiring a home occupied or to be occupied by that director; however, not more than one (1) such restricted transaction may be outstanding from the director at any one time; • made to or for the benefit of a relevant director who is engaged in full-time employment of the company or a related corporation as the case may be, where the company has at a general meeting approved of a scheme for the making of such transaction to or for the benefit of employees of the company, and the restricted transaction is in accordance with that scheme; and • made to or for the benefit of a relevant director in the ordinary course of business by a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans, quasi-loans or credit transactions made or entered into by other persons if the activities of that company are regulated by any written law relating to banking, finance companies or insurance or are subject to supervision by the MAS. <p>For these purposes, a related corporation of a company means its holding company, its subsidiary or a subsidiary of its holding company.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
		<p>A company (the “first mentioned company”) (other than an exempt private company) is also prohibited from, among others, (a) making a loan or quasi-loan to another company, a limited liability partnership or a variable capital company (“VCC”); (b) entering into any guarantee or providing any security in connection with a loan or quasi-loan made to another company, a limited liability partnership or a VCC by a person other than the first mentioned company; (c) entering into a credit transaction as creditor for the benefit of another company, a limited liability partnership or a VCC; and (d) entering into any guarantee or providing any security in connection with a credit transaction entered into by any person for the benefit of another company, a limited liability partnership or a VCC, if the director(s) of the first mentioned company (and the spouse, natural step and adopted children of such director(s)), individually or collectively, have an interest in 20.0% or more of the total voting power in the other company, the limited liability partnership or the VCC, as the case may be, unless there is prior approval by the company in general meeting for the making of, provision for or entering into the loan, quasi-loan, credit transaction, guarantee or security (as the case may be) at which the interested director(s) and his or their family members abstained from voting. This prohibition does not apply to:</p> <ul style="list-style-type: none"> • anything done by a company where the other company (whether incorporated in Singapore or otherwise) or VCC is its subsidiary, holding company or a subsidiary of its holding company; or

	Cayman Islands Corporate Law	Singapore Corporate Law
		<ul style="list-style-type: none"> a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, to anything done by the company in the ordinary course of that business if the activities of that company are regulated by any written law relating to banking, finance companies or insurance or are subject to supervision by the MAS.
Transactions Affecting Share Capital	The Cayman Islands Companies Act (as revised) contains provisions relating to the reduction of share capital, and the redemption and repurchase of shares and these procedures are also regulated by any prescribed provisions in the company's memorandum and articles of association.	The Singapore Companies Act contains provisions relating to share capital reductions, permitted share buy-backs and redeemable preference shares.

	Cayman Islands Corporate Law	Singapore Corporate Law
Mergers and Similar Arrangements	<p>The Cayman Islands Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two (2) or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two (2) or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (i) a special resolution of each constituent company and (ii) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.</p>	<p>The Singapore Companies Act provides that the Singapore courts have the authority, in connection with a scheme for the reconstruction of any company or companies or the amalgamation of any two (2) or more companies, and where under the scheme the whole or any part of the undertaking or the property of any company concerned in the scheme (the transferor company) is to be transferred to another company (the transferee company), to order the transfer to the transferee company of the whole or any part of the undertaking and of the property or liabilities of the transferor company. Such power only exists in relation to any corporation liable to be wound up under the Singapore Companies Act.</p> <p>The Singapore Companies Act further provides for a voluntary amalgamation process without the need for a court order. Under this voluntary amalgamation process, two (2) or more Singapore incorporated companies may amalgamate and continue as one (1) company, which may be one of the amalgamating companies or a new company, in accordance with the procedures set out in the Singapore Companies Act. As part of these procedures, the board of directors of each of the amalgamating companies must make a solvency statement in relation to both the amalgamating company and the amalgamated company.</p> <p>The Singapore Companies Act also provides for a short form amalgamation procedure for (a) the amalgamation of a Singapore-incorporated company (the amalgamating holding company) with one (1) or more of its wholly-owned subsidiaries (the amalgamating subsidiary company); and (b) two (2) or more wholly-owned Singapore incorporated subsidiary companies of the same corporation.</p> <p>The Singapore Companies Act does not provide for appraisal rights to the shareholders of a company in connection with a merger.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Remuneration	There is no provision in the Cayman Islands Companies Act (as revised) or under Cayman Islands law regulating remuneration for directors.	The Singapore Companies Act provides that a company shall not at any meeting or otherwise provide emoluments or improve emoluments for a director in respect of his office as such unless the provision has been approved by a resolution that is not related to other matters, and any resolution passed in breach of this provision is void. For this purpose, the term “ emoluments ” in relation to a director includes fees and percentages, any sums paid by way of expenses allowance in so far as those sums are charged to income tax in Singapore, any contribution paid in respect of a director under any pension scheme, and any benefits received by him otherwise than in cash in respect of his services as a director.
Disclosure of Interest in Contracts with the Company	There is no provision under Cayman Islands Companies Act (as revised) relating to directors in a position of conflict of interest. The common law principles under Cayman Islands law that a director must not put himself in a position of conflict between his personal interest and his duty to the company will apply to the directors of a Cayman Islands exempted company.	<p>The Singapore Companies Act provides that, where a director or chief executive officer of a company is in any way, whether directly or indirectly, interested in a transaction or proposed transaction with that company, such a director or chief executive officer must, as soon as practicable after the relevant facts have come to his knowledge, (a) declare the nature of his interest at a meeting of the directors of the company; or (b) send a written notice to the company containing details on the nature, character and extent of his interest in the transaction or proposed transaction with the company.</p> <p>The Singapore Companies Act also provides that every director and chief executive officer of a company who holds any office or possesses any property whereby whether directly or indirectly, any duty or interest might be created in conflict with their duties or interests as director or chief executive officer shall (i) declare at a meeting of the directors of the company the fact and the nature, character and extent of the conflict; or (ii) send a written notice to the company setting out the fact and the nature, character and extent of the conflict. For these purposes, an interest of a member of a director's or chief executive officer's family (this includes his or her spouse, natural, step or adopted children) is treated as an interest of that director or chief executive officer.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Appointment, Qualification, Retirement, Resignation and Removal of Directors	(a) Number, Qualification and Appointment of Directors	
	<p>There must be at least one (1) director of a Cayman Islands exempted company. There is no requirement that any of the directors be ordinarily resident in the Cayman Islands or any requirement of holding company's share(s).</p> <p>The initial director(s) is (are) appointed by the subscriber(s) to the memorandum of association. Thereafter, the addition and/or removal of directors will normally be effected in accordance with the provisions of the company's memorandum and articles of association.</p> <p>The names and addresses of the directors and officers of a company must be entered in a register of directors and officers and kept at the registered office of the company. A copy of the register and notice of any amendments must be filed with the Registrar of Companies in the Cayman Islands. A list of the names of the then-current directors of a Cayman Islands exempted company can be inspected at the offices of the Cayman Islands Registrar of Companies, but the register of directors and officers is not a public document.</p> <p>The Cayman Islands Companies Act (as revised) does not contain provisions on the retirement age of directors.</p>	<p>Under the Singapore Companies Act, every company must have at least one (1) director who is ordinarily resident in Singapore. Where the company has only one (1) member, that sole director may also be the sole member of the company.</p> <p>No person other than a natural person who has attained the age of 18 and who is otherwise of full legal capacity shall be a director of a company.</p> <p>Every director, who is by the constitution of the company required to hold a specified share qualification and who is not already qualified, must obtain his qualification within two (2) months after his appointment or such shorter period as is fixed by the constitution.</p> <p>In the case of a public company, the appointment of directors at a general meeting must generally be voted on individually. A motion for the appointment of two (2) or more persons as directors by a single resolution shall not be made unless a resolution that it shall be so made has first been agreed to at the meeting without any vote being given against it. A resolution passed in pursuance of a motion made in contravention of this shall be void, whether or not it being so moved was objected to at the time.</p> <p>The Singapore Companies Act does not contain provisions on the age limit of directors.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Appointment, Qualification, Retirement, Resignation and Removal of Directors	(b) Disqualification of Directors	
	<p>The Cayman Islands Companies Act (as revised) does not contain provisions on disqualification of directors. The circumstances under which a person is disqualified from acting as a director will be as provided in the company's memorandum and articles of association.</p>	<p>Under the Singapore Companies Act, a person may not act as a director of, or directly or indirectly take part in or be concerned in the management of, any corporation if he is an undischarged bankrupt unless he has the leave of the Singapore courts or the written permission of the Official Assignee appointed under the Insolvency, Restructuring and Dissolution Act 2018 of Singapore to do so.</p> <p>A person may be disqualified from acting as a director of a company by the Singapore courts for a period not exceeding five (5) years if: (a) he is or has been a director of a company which has at any time gone into liquidation (whether while he was a director or within three (3) years of his ceasing to be a director) and was insolvent at that time; and (b) his conduct as director of that company either taken alone or taken together with his conduct as a director of any other company or companies makes him unfit to be a director of or in any way, whether directly or indirectly, be concerned in, or take part in, the management of a company.</p> <p>A person may, subject to certain exceptions, also be disqualified from acting as a director by the Singapore courts for a period of three (3) years from the date of the making of the winding up order if he is a director of a company which is ordered to be wound up by the Singapore courts on the ground that it is being used for purposes against national security or interest.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
		<p>He could also be disqualified on other grounds, such as conviction of any offence (whether in Singapore or elsewhere) involving fraud or dishonesty which is punishable with imprisonment for three (3) months or more, or any offence under Part 12 of the SFA where the conviction was on or after 1 July 2015 or where he is subject to the imposition of a civil penalty under Section 232 of the SFA on or after 1 July 2015. The Singapore courts may also make a disqualification order against a person who is convicted in Singapore of any offence in connection with the formation or management of a corporation, any offence under Section 157 or 396B of the Singapore Companies Act or any offence under section 237 or 239 of the Insolvency, Restructuring and Dissolution Act 2018.</p> <p>A director may also be disqualified because of persistent default in relation to delivery of documents to the Registrar of Companies.</p> <p>A person could be the subject of a debarment order made against him by the Registrar of Companies, if the Registrar of Companies is satisfied that a company of which he is a director at the time the order is made is in default of a relevant requirement of the Singapore Companies Act. A person who has a debarment order made against him may not act as director of any company (except in respect of a company of which he was a director immediately before the order was made), and the debarment order applies from the date the order is made and continues in force until the Registrar of Companies cancels or suspends the order.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Appointment, Qualification, Retirement, Resignation and Removal of Directors	(c) Resignation of Directors	
	The Cayman Islands Companies Act (as revised) does not contain provisions on the resignation of directors.	<p>Under the Singapore Companies Act, a director of a company cannot resign or vacate his office unless there is remaining in the company at least one (1) director who is ordinarily resident in Singapore, and any purported resignation or vacation of office in breach of this provision is deemed to be invalid.</p> <p>Subject to the provisions of the Singapore Companies Act, unless the constitution of the company otherwise provides, a director's resignation is effective by giving written notice to the company, and his resignation is not conditional upon the company's acceptance of such resignation.</p>
Appointment, Qualification, Retirement, Resignation and Removal of Directors	(d) Removal of Directors	
	The Cayman Islands Companies Act (as revised) does not contain provisions on the removal of directors. The removal of directors will normally be effected in accordance with the provisions of the company's memorandum and articles of association.	<p>A director of a public company may be removed before the expiration of his period of office by an ordinary resolution (which requires special notice to be given in accordance with the provisions of the Singapore Companies Act) of the shareholders, notwithstanding anything in the constitution of that company or in any agreement between that company and the director, but where any director so removed was appointed to represent the interests of any particular class of shareholders or debenture holders, the resolution to remove him shall not take effect until his successor has been appointed.</p> <p>Subject to the provisions of the Singapore Companies Act, the constitution of a company may prescribe the manner in which a director may be removed from office before the expiration of his term of office.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Alteration of Governing Documents	(a) Alteration of Constitution, Memorandum of Association or Articles of Association	
	<p>The Cayman Islands Companies Act (as revised) provides that a Cayman Islands exempted company may, by special resolution of its shareholders, alter its memorandum of association with respect to any of the objects, powers or other matters specified therein. A copy of the amended memorandum of association (if an amended and restated memorandum of association is adopted) and a copy of the special resolution must be filed with the Registrar of Companies in the Cayman Islands.</p>	<p>Unless otherwise provided in the Singapore Companies Act, a company's constitution may be altered by way of special resolution, except that any entrenching provision in the constitution and any provision contained in the constitution before 1 April 2004 which could not be altered before that date may be removed or altered only if all members of the company agree.</p> <p>For these purposes, the term "entrenching provision" means a provision of the constitution of a company to the effect that other specified provisions of the constitution: (a) may not be altered in the manner provided by the Singapore Companies Act; or (b) may not be so altered except by a resolution passed by a specified majority greater than 75.0%, or where other specified conditions are met.</p> <p>Unless otherwise provided in the Singapore Companies Act, any alteration to the constitution of the company takes effect on and from the date of the special resolution approving such alteration or such later date as is specified in the resolution.</p> <p>Subject to Section 33 of the Singapore Companies Act, a company may by special resolution alter the provisions of its constitution with respect to the objects of the company, if any. Where a company proposes to alter its constitution, with respect to the objects of the company, it shall give 21 days' written notice by post or by electronic communications in accordance with the provisions of Singapore Companies Act, specifying the intention to propose the resolution as a special resolution and to submit it for passing at a meeting of the company to be held on a day specified in the notice.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
		Notwithstanding any other provision of the Singapore Companies Act, a copy of the resolution altering the objects of a company shall not be lodged with the Registrar, among others, before the expiration of 21 days after the passing of the resolution, and a copy of the resolution shall be lodged with the Registrar within 14 days after the expiration of the 21 day period, on compliance with which the alteration, if any, of the objects shall take effect.
Alteration of Governing Documents	(b) Alteration of articles of association	
	<p>The Cayman Islands Companies Act (as revised) provides that a Cayman Islands exempted company may, by special resolution of its shareholders, but subject otherwise to the memorandum of association of the company, alter or add to its articles of association.</p> <p>On an amendment of the articles of association, a copy of the special resolution and the amended articles of association (if an amended and restated articles of association is adopted) must be registered with the Registrar of Companies in the Cayman Islands.</p>	
Variation of Rights Attached to Shares	The Cayman Islands Companies Act (as revised) does not contain provisions determining the action necessary to change the rights of holders of shares. The variation of the rights attached to any class of shares is usually dealt with generally in the company's memorandum and articles of association of a company.	Under the Singapore Companies Act, if a provision is made in the constitution of a company for authorising the variation or abrogation of the rights attached to any class of shares in the company, subject to the consent of any specified proportion of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares, and in pursuance of that provision such rights are at any time varied or abrogated, the holders of not less than 5.0% in aggregate of the total number of the issued shares of that class may apply to the Singapore courts to have the variation or abrogation cancelled in accordance with the Singapore Companies Act.

	Cayman Islands Corporate Law	Singapore Corporate Law
		The Singapore courts may, if satisfied, having regard to all the circumstances of the case, that the variation or abrogation would unfairly prejudice the shareholders of the class represented by the applicant, disallow the variation or abrogation, and shall, if not so satisfied, confirm it and this decision shall be final.
Shareholders' Proposals	The Cayman Islands Companies Act (as revised) provides that, in the absence of any provision in the articles of association as to the persons to summon general meetings, three (3) members shall be competent to summon the same.	<p>Under the Singapore Companies Act, (a) any number of members representing not less than 5.0% of the total voting rights of all the members having at the date of requisition a right to vote at a meeting to which the requisition relates; or (b) not less than 100 members holding shares on which there has been paid up an average sum, per member, of not less than S\$500, may requisition the company to give to members notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting, and circulate to members any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.</p> <p>Notwithstanding anything in its constitution, the directors of a company shall, on the requisition of members holding at the date of the deposit of the requisition not less than 10.0% of the total number of paid-up shares (excluding treasury shares) as at the date of the deposit carries the right of voting at general meetings or, in the case of a company not having a share capital, of members representing not less than 10.0% of the total voting rights of all members having at that date a right to vote at general meetings, immediately proceed duly to convene an extraordinary general meeting of the company to be held as soon as practicable but in any case not later than two (2) months after the receipt by the company of the requisition.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
		<p>If the directors do not within 21 days after the date of the deposit of the requisition proceed to convene a meeting, the requisitionists, or any of them representing more than 50.0% of the total voting rights of all of them, may themselves, in the same manner as nearly as possible as that in which meetings are to be convened by directors convene a meeting, but any meeting so convened shall not be held after the expiration of three (3) months from that date.</p> <p>Under the Singapore Companies Act, two (2) or more members holding not less than 10.0% of the total number of issued shares of the company (excluding treasury shares) or, if the company does not have a share capital, not less than 5.0% in number of the members of the company or such lesser number as is provided by the constitution may call a meeting of the company.</p> <p>A meeting of a company or of a class of members, other than a meeting for the passing of a special resolution, shall be called by notice in writing of not less than 14 days or such longer period as is provided in the constitution.</p> <p>Shorter notice can be given if, (i) in the case of an annual general meeting, all the members entitled to attend and vote thereat so agree; or (ii) in the case of any other meeting, a majority in number of the members having a right to attend and vote thereat, being a majority which together holds not less than 95.0% of the total voting rights of all the members having a right to vote at that meeting so agree.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Shareholders' Action by Written Consent	Certain matters are required by the Cayman Islands Companies Act (as revised) to be decided by special resolution. Where so authorised by the articles of association of a company, special resolutions may be approved in writing by all of the members entitled to vote at a general meeting of the company in one (1) or more instrument each signed by one (1) or more of the members.	Notwithstanding any other provision of the Singapore Companies Act, a private company or an unlisted public company may pass any resolution by written means (save for any resolution to dispense with the holding of annual general meetings or any resolution for which special notice is required) in accordance with the provisions of the Singapore Companies Act. There is no corresponding provision in the Singapore Companies Act which applies to a public listed company, whether listed in Singapore or elsewhere.
Shareholders' Suits and Protection of Minority Shareholders	<p>In addition to following Cayman Islands case law precedents, the Cayman Islands courts would ordinarily be expected to follow English case law precedents (which would be of persuasive effect in the Cayman Islands) which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is <i>ultra vires</i> the company or illegal; (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.</p> <p>In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint one (1) or more inspectors to examine into the affairs of the company and to report thereon in such manner as the court shall direct. The inspectors shall on the completion of their examination report to the court. Such report is not, unless the court so directs, open to public inspection. A company also may, by special resolution, appoint inspectors for the purpose of examining into the affairs of the company. Inspectors so appointed will have the same powers and perform the same duties as inspectors appointed by the court, except that instead of making their report to the court they will report in such manner and to such persons as the company by resolution of its members directs.</p>	<p>A member or a holder of a debenture of a company may apply to the Singapore courts for an order under Section 216 of the Singapore Companies Act to remedy situations where:</p> <ul style="list-style-type: none"> a company's affairs are being conducted or the powers of the company's directors are being exercised in a manner oppressive to, or in disregard of the interests of, one (1) or more of the members, shareholders or holders of debentures of the company, including the applicant; or a company has done an act, or threatens to do an act, or the members or holders of debentures have passed some resolution, or propose to pass some resolution, which unfairly discriminates against, or is otherwise prejudicial to, one (1) or more of the company's members or holders of debentures, including the applicant. <p>Singapore courts have wide discretion as to the relief they may grant under such application, including, among others: (i) directing or prohibiting any act or cancelling or varying any transaction or resolution; (ii) providing that the company be wound up; or (iii) authorising civil proceedings to be brought in the name of or on behalf of the company by such person or persons and on such terms as the court directs.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
	<p>A shareholder of a company who has held shares in a company for at least six (6) months may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.</p>	<p>In addition, a member of a company who is seeking relief for damage done to the company may bring a common law derivative action in certain circumstances against the persons who have done wrong to the company.</p> <p>Further, Section 216A of the Singapore Companies Act prescribes a procedure to bring a statutory derivative action or arbitration in the name and on behalf of a Singapore-incorporated company. The statutory procedure is available to, among others, a member of a company and any other person who, in the discretion of the court, is a proper person to make an application under Section 216A of the Singapore Companies Act.</p>
Winding Up	<p>A Cayman Islands exempted company may be wound up:</p> <ul style="list-style-type: none"> (a) compulsorily by an order of the Cayman Islands court, (b) voluntarily by, among others, a special resolution of its members; or (c) under the supervision of the Cayman Islands court. <p>The Cayman Islands court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the court, or where the company is unable to pay its debts, or where it is, in the opinion of the Cayman Islands court, just and equitable to do so.</p>	<p>The winding up of a company may be done in the following ways:</p> <ul style="list-style-type: none"> (a) members' voluntarily winding up; (b) creditors' voluntarily winding up; (c) court compulsory winding up; or (d) an order made pursuant to Section 216 of the Singapore Companies Act for the winding up of the company. <p>The type of winding up depends, among others, on whether the company is solvent or insolvent.</p>

	Cayman Islands Corporate Law	Singapore Corporate Law
Dissolution	<p>On the winding-up of our Company, if the assets available for distribution among our Shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding-up, the excess shall be distributed <i>pari passu</i> among our Shareholders in proportion to the amount paid up on the Shares held by them respectively. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that, as nearly as may be, the losses are borne by our Shareholders in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.</p>	<p>A company may be dissolved:</p> <ul style="list-style-type: none"> (a) through the process of liquidation pursuant to the winding up of the company; (b) in a merger or amalgamation of two (2) companies where the court may order the dissolution of one after its assets and liabilities have been transferred to the other; or (c) when it is struck off the register by the Registrar of Companies on the ground that it is a defunct company.

APPENDIX D – SUMMARY OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF OUR COMPANY AND CAYMAN ISLANDS CORPORATE LAW

The following are summaries of material provisions of our memorandum and articles of association which are currently effective and will remain effective after this Introduction, insofar as they relate to the material terms of our Shares.

SUMMARY OF OUR MEMORANDUM AND ARTICLES OF ASSOCIATION

1. Memorandum of Association

Our Memorandum of Association, as currently in effect, states, *inter alia*, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Cayman Islands Companies Act or any other law of the Cayman Islands.

Our Memorandum of Association is available on display at the location specified in the section entitled “*General and Statutory Information*” of this Introductory Document under the sub-section headed “*Documents Available for Inspection*”.

2. Articles of Association

Our Articles of Association, as currently in effect, includes provisions to the following effect:

Objects of Our Company

The objects for which our Company is established are unrestricted and we have the full power and authority to carry out any object not prohibited by the law of the Cayman Islands.

Shares

Our share capital is HK\$500,000,000 divided into 5,000,000,000 Shares of a par value of HK\$0.10 each. Holders of our Shares have the same rights subject to the provisions of the Cayman Islands Companies Act and our Articles of Association and to any special rights conferred on the holders of any Shares or class of shares.

Every share certificate shall be issued under the seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the Shares to which it relates, and the amount paid up thereon and may otherwise be in such form as our Directors may from time to time determine.

Subject to the provision of the Cayman Islands Companies Act and the Memorandum and Articles of Association of our Company and to any special rights conferred on the holder of any shares or class of shares, any Share in our Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as our Company may by ordinary resolution determine or, if there has not been any such determination or so far as the same shall not make specific provision, as our Board may determine.

Subject to the Cayman Islands Companies Act, the Memorandum and Articles of Association of our Company, any direction that may be given by our Company in general meeting and, where applicable, the rules of any designated stock exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or class of shares, or unissued Shares (whether forming part of the original or any increased capital) shall be at the

disposal of our Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as our Board may in its absolute discretion determine but so that no Shares shall be issued at a discount.

Our Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of our Company on such terms as it may from time to time determine.

Preference shares

Subject to the Cayman Islands Companies Act, any preference shares may be issued or converted into Shares that are liable to be redeemed on such terms and in such manner as our Company before the issue or conversion may by ordinary resolution of our Shareholders determine, at a determinable date or at the option of our Company or the holder if so authorised by our Memorandum of Association and Articles of Association.

Dividends

Dividends may be declared and paid out of profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Board determines is no longer needed, or paid out of the share premium account or other fund or account which can be authorised for the purpose in accordance with the Cayman Islands Companies Act. In addition, subject to the Cayman Islands Companies Act, our Company in general meeting may from time to time declare dividends to our Shareholders but no dividend may exceed the amount recommended by our Board. In either case, under the laws of the Cayman Islands, our Company may pay a dividend out of either profits or the share premium account, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business.

All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by our Board for the benefit of our Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to our Company. The payment by our Board of any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute our Company a trustee in respect thereof.

Voting Rights

Each fully paid Share shall entitle the holder thereof to one (1) vote on all matters subject to vote at general meetings of our Company.

A resolution put to the vote at a general meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, in which case every Shareholder present in person (or being a corporation, is present by a duly authorised representative) or by proxy(ies) shall have one (1) vote provided that where more than one (1) proxy is appointed by a Shareholder which is a clearing house (or its nominee(s)), each such proxy shall have one (1) vote on a show of hands. Procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by our Company to our Shareholders; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all Shareholders a reasonable opportunity to express their views.

Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded:

- (i) by at least three (3) Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (ii) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in our Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

An ordinary resolution to be passed at a meeting by the Shareholders requires the affirmative vote of a simple majority of the votes cast by such Shareholders entitled to vote at a meeting, while a special resolution requires the affirmative vote of no less than three-fourths of the votes by such Shareholders entitled to vote at a meeting. A special resolution will be required for important matters such as a change of name or changes to our Memorandum of Association and/or our Articles of Association. Our Company may from time to time by ordinary resolution in accordance with the Cayman Islands Companies Act alter the conditions of our Memorandum of Association to (i) increase the amount of our authorised share capital, (ii) consolidate all or any of our share capital into shares of larger amount than our existing shares, (iii) divide our shares into several classes without prejudice to any special rights previously conferred on the holders of existing share attached thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, (iv) subdivide our shares or any of them into shares of an amount smaller than that fixed by our Memorandum and Articles of Association, and (v) cancel any unissued shares as provided in the Articles of Association of our Company. The Cayman Islands Companies Act also permits both ordinary resolutions and special resolutions to be passed by a unanimous written resolution signed by all the Shareholders of our Company.

Transfer of Shares

Subject to the restrictions of our Memorandum and Articles of Association, as applicable, any of our Shareholders may transfer any or all of his or her ordinary shares by an instrument of transfer and in the usual or common form or in any other form approved by our Board.

Our Board of Directors may, in its absolute discretion, decline to register any transfer of shares (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register a transfer of any share to more than four (4) joint holders or a transfer of any share (not being a fully paid up share) on which we have a lien. Our Board of Directors may also decline to register any transfer of any ordinary share unless:

- (i) the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;

- (ii) the instrument of transfer is in respect of only one (1) class of ordinary shares;
- (iii) the instrument of transfer is properly stamped, if required; and
- (iv) a fee of such maximum sum as the Designated Stock Exchange (as defined in the Articles of Association) may determine to be payable or such lesser sum as our Directors may from time to time require is paid to us in respect thereof.

If our Directors refuse to register a transfer, they shall notify the transferee within two (2) months after the date on which the instrument of transfer was lodged with our Company, send to each of the transferor and transferee notice of refusal.

The Register of Members of the Company including any overseas or local or other branch register of members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles of Association) to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as our Board may determine and either generally or in respect of any class of shares.

Liquidation

On the winding-up of our Company, if the assets available for distribution among our Shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding-up, the surplus shall be distributed *pari passu* among our Shareholders in proportion to the amount paid up on the shares held by them respectively. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed, as nearly as may be, so that the losses are borne by our Shareholders in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

Calls on Shares and Forfeiture of Shares

Subject to the Articles of Association of our Company and to the terms of allotment, our Board of Directors may from time to time make calls upon Shareholders in respect of any moneys unpaid on their shares (whether on account of the nominal value of the shares or by way of premium), and each Shareholder shall (subject to being given least 14 clear days' notice specifying the time and place of payment) pay to our Company as required by such notice the amount called on his shares. The shares that have been called upon and remain unpaid may be subject to forfeiture as provided in the Articles of Association of our Company.

Redemption, Repurchase and Surrender of Shares

Subject to the provisions of the Cayman Islands Companies Act, the rules of the HKSE and the Memorandum and Articles of Association of our Company, and to any special rights conferred on the holders of any shares or attaching to any class of shares, shares may be issued on the terms that they may be, or at the option of our Company or the holder are, liable to be redeemed on such terms and in such manner, including out of capital, as our Board may deem fit. Subject to the provisions of the Cayman Islands Companies Act, the Memorandum and Articles of Association of our Company and the rules of the HKSE, any power of our Company to purchase or otherwise acquire its own shares shall be exercisable by our Board in such manner, upon such terms and subject to such conditions as it thinks fit.

Where our Company purchases (for redemption) a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by our Company in general meeting, either generally or with regard to specific purchases. If purchases are by tender, tenders shall be available to all Shareholders alike.

Under the Cayman Islands Companies Act, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Cayman Islands Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our Company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares

Subject to the provisions of the Cayman Islands Companies Act and the Memorandum and Articles of Association of our Company, all or any of the special rights for the time being attached to the Shares or any class of Shares may, unless otherwise provided by the terms of issue of the shares of that class, from time to time (whether or not our Company is being wound up) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of these Articles relating to general meetings of our Company shall, *mutatis mutandis*, apply, but so that:

- (i) the necessary quorum (other than at an adjourned meeting) shall be two (2) persons (or in the case of a Shareholder being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued Shares of that class and at any adjourned meeting of such holders, two (2) holders present in person (or in the case of a Shareholder being a corporation, its duly authorised representative) or by proxy (whatever the number of shares held by them) shall be a quorum; and
- (ii) every holder of Shares of the class shall be entitled to one (1) vote for every such Share held by him.

The special rights conferred upon the holders of any Shares or class of Shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

Changes in Capital

Our Company may from time to time by ordinary resolution in accordance with the Cayman Islands Companies Act alter the conditions of our Memorandum of Association to:

- (i) increase our capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than our existing Shares;

- (iii) divide our Shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by our Company in general meeting, as the Directors may determine;
- (iv) sub-divide our Shares, or any of them, into Shares of smaller amount than is fixed by our Memorandum of Association (subject, nevertheless, to the Cayman Islands Companies Act), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as our Company has power to attach to unissued or new shares; or
- (v) cancel any Shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of our capital by the amount of the Shares so cancelled or, in the case of shares, without par value, diminish the number of Shares into which our capital is divided.

Limitations on the Right to Own Shares

There are no limitations on the right to own our Shares. Our Shareholders who are non-residents of the Cayman Islands may freely hold and vote on their shares.

Directors

Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2) directors. There shall be no maximum number of Directors unless otherwise determined from time to time by the Shareholders in general meeting. We may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of directors shall never be less than two (2).

A Director may not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or
- (v) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any director, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates.

The Directors may exercise all the powers of our Company to raise or borrow money, mortgage and to charge all or part of our Company's undertaking, property (present and future) and uncalled capital of our Company, and, subject to the Cayman Islands Companies Act, issue debentures or other securities whenever money is borrowed or as security for any obligation of our Company or of any third party.

The remuneration of the Directors is subject to the approval of our Shareholders in general meeting. The Directors shall be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of his duties as a Director. Any of our Directors who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of our Board go beyond the ordinary duties of a Director may be paid extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as our Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other articles of the Articles of Association.

Our executive Director appointed to an office shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as our Board may from time to time determine, and either in addition to or in lieu of his remuneration as Director.

Our Directors shall not be required to hold any shares in our Company by way of qualification.

Notwithstanding any other provisions in the Articles of Association of our Company, at each annual general meeting, one-third of the Directors then in office (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) who have been longest in office shall retire from office by rotation, provided that every director shall be subject to retirement at least once every three (3) years. As between two (2) or more who have been in office for the same length of time, the Director or Directors to retire shall in default of agreement between them be determined by lot. The length of time a Director has been in office shall be computed from his last election or appointment where he has previously vacated office.

There are no age limitations in respect of our Directors.

SUMMARY OF CAYMAN ISLANDS CORPORATE LAW AND TAXATION

1. INTRODUCTION

The Cayman Islands Companies Act is derived, to a large extent, from the older companies acts of England, although there are significant differences between the Cayman Islands Companies Act and the current companies act of England. Set out below is a summary of certain provisions of the companies act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. INCORPORATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 May 2002 under the Cayman Islands Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the registrar of companies of the Cayman Islands and pay a fee which is based on the size of our authorised share capital.

3. SHARE CAPITAL

The Cayman Islands Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Islands Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Islands Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Islands Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Islands Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Islands Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. DIVIDENDS AND DISTRIBUTIONS

With the exception of section 34 of the Cayman Islands Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Islands Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 (Share Capital) above for details).

5. SHAREHOLDERS' SUITS

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. PROTECTION OF MINORITIES

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order, among others, if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. DISPOSAL OF ASSETS

The Cayman Islands Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. ACCOUNTING AND AUDITING REQUIREMENTS

The Cayman Islands Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. REGISTER OF MEMBERS

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Islands Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. INSPECTION OF BOOKS AND RECORDS

Members of a company will have no general right under the Cayman Islands Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. SPECIAL RESOLUTIONS

The Cayman Islands Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12. SUBSIDIARY OWNING SHARES IN PARENT

The Companies Act does not prohibit a Cayman Islands company from acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. MERGERS AND CONSOLIDATIONS

The Cayman Islands Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two (2) or more constituent companies and the vesting of their undertaking, property and liabilities in one (1) of such companies as the surviving company, and (b) “consolidation” means the combination of two (2) or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (i) a special resolution of each constituent company and (ii) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14. RECONSTRUCTIONS

There are statutory provisions which facilitate reconstructions and amalgamations approved by (a) 75% in value of shareholders or class of shareholders, or (b) a majority in number representing 75% in value of the creditors or class of creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands.

15. TAKE-OVERS

Where an offer is made by a company for the shares of another company and, within four (4) months after making the offer, the holders of not less than 90% in value of the shares accepted the offer, the offeror may at any time within two (2) months after the expiration of the said four (4) months, give notice in the prescribed manner to any dissenting shareholder and within one (1) month from the date on which the notice was given, or if the Grand Court of the Cayman Islands thinks fit to order otherwise, be entitled and bound to acquire those shares on the terms on which under the scheme or contract the shares of the approving shareholders are to be transferred to the offeror.

16. INDEMNIFICATION

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17. LIQUIDATION

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) among them in accordance with the rights attaching to the shares.

18. STAMP DUTY ON TRANSFERS

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19. TAXATION

Pursuant to section 6 of the Tax Concessions Act (as revised) of the Cayman Islands, our Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of our Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (as revised).

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made by or to our Company.

Payments of dividends and capital in respect of our Shares will not be subject to taxation in the Cayman Islands and no withholding tax will be required on the payment of a dividend or capital to any holder of our Shares, nor will gains derived from the disposal of our Shares be subject to Cayman Islands income or corporation tax.

20. EXCHANGE CONTROL

There are no exchange control regulations or currency restrictions in the Cayman Islands.

APPENDIX E – LIST OF PAST AND PRESENT DIRECTORSHIPS

The past and present principal directorships in our Principal Subsidiaries and publicly listed companies held by our Directors and Executive Officers in the last five (5) years preceding the Latest Practicable Date (excluding those held in our Company) are as follows:

DIRECTORS

	Present Directorships	Past Directorships
Mr. Fok Tung Ling	<i>Group Companies</i>	<i>Group Companies</i>
	Guangzhou TPcom Wireless Ltd. (广州泰普无线通信设备有限公司)	Comba Network Systems Company Ltd. (京信网络系统股份有限公司)
	Comba Software Technology (Guangzhou) Limited (京信软件科技(广州)有限公司)	WaveLab Telecom Equipment (Guangzhou) Ltd. (波达通信设备(广州)有限公司)
	Comba Telecom Systems Investments Limited	WaveLab Limited
	Praises Holdings Limited	Comba Telecom Network Systems Limited
	Comba Telecom Systems Limited	Rivera Power Limited
	Cascade Technology Limited	Noblefield International Limited
	Jiafu Investments Limited	
	Comba Telecom Systems International Limited	
	Comba Telecom Limited	
	WaveLab Holdings Limited	
	WaveLab Asia Holdings Limited	
	Comba Telecom Systems (Singapore) Pte. Ltd.	
	Comba Telecom & Sistemas de México, S.A. de C.V.	
	Comba Telecom y Servicios de México, S.A. de C.V.	
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL

	Present Directorships	Past Directorships
Mr. Zhang Yue Jun	<i>Group Companies</i>	<i>Group Companies</i>
	Comba Network Systems Company Ltd. (京信网络系统股份有限公司)	Jiafu Holdings Limited
	Comba Telecom Technology (Guangzhou) Limited (京信通信技术(广州)有限公司)	Comba Telecom Systems International Limited
	Comba Telecom Systems (Guangzhou) Limited (京信通信系统(广州)有限公司)	Rivera Power Limited
	Guangzhou TPcom Wireless Ltd. (广州泰普无线通信设备有限公司)	Comba Telecom Systems (Singapore) Pte. Ltd.
	Comba Software Technology (Guangzhou) Limited (京信软件科技(广州)有限公司)	Comba Telecom Inc.
	Wavelab Telecom Equipment (Guangzhou) Ltd. (波达通信设备(广州)有限公司)	ETL Company Limited
	Comba Telecom Systems Investments Limited	
	Praises Holdings Limited	
	Comba Telecom Systems Limited	
	Cascade Technology Limited	
	Jiafu Investments Limited	
	WaveLab Holdings Limited	
	WaveLab Limited	
	WaveLab Asia Holdings Limited	
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL

	Present Directorships	Past Directorships
Mr. Xu Huijun	<i>Group Companies</i>	<i>Group Companies</i>
	Comba Network Systems Company Ltd. (京信网络系统股份有限公司)	NIL
	Comba Telecom Systems (Guangzhou) Limited (京信通信系统(广州)有限公司)	
	Comba Software Technology (Guangzhou) Limited (京信软件科技(广州)有限公司)	
	Wavelab Telecom Equipment (Guangzhou) Ltd. (波达通信设备(广州)有限公司)	
	Comba Telecom Systems Investments Limited	
	Praises Holdings Limited	
	Comba Telecom Systems Limited	
	Cascade Technology Limited	
	Jiafu Holdings Limited	
	Jiafu Investments Limited	
	Comba Telecom Systems International Limited	
	WaveLab Holdings Limited	
	WaveLab Limited WaveLab Asia Holdings Limited	
	Rivera Power Limited	
	ETL Company Limited	
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL

	Present Directorships	Past Directorships
Mr. Chang Fei Fu	<i>Group Companies</i>	<i>Group Companies</i>
	Comba Network Systems Company Limited (京信网络系统股份有限公司)	ScanViS Limited
	Comba Telecom Systems (Guangzhou) Limited (京信通信系统(广州)有限公司)	Comba Telecom Network Systems Limited
	Comba Telecom Technology (Guangzhou) Limited (京信通信技术(广州)有限公司)	Rivera Power Limited
	Guangzhou TPcom Wireless Ltd (广州泰普无线通信设备有限公司)	Comba Telecom, S.L.U.
	WaveLab Telecom Equipment (Guangzhou) Limited (波达通信设备(广州)有限公司)	Comba Telecom Inc.
	Comba Telecom Systems Investments Limited	
	Praises Holdings Limited	
	Comba Telecom Systems Limited	
	Cascade Technology Limited	
	Jiafu Holdings Limited	
	Jiafu Investments Limited	
	Comba Telecom Systems International Limited	
	Comba Telecom Limited	
	WaveLab Holdings Limited	
	WaveLab Asia Holdings Limited	
	Noblefield International Limited	
	Comba Telecom Systems (Singapore) Pte. Ltd.	
	Comba Telecom India Private Limited	
	Comba Telecom Macau Limited	
	PT. Comba Telecom	

	Present Directorships	Past Directorships
	Comba Telecom & Sistemas de México, S.A. de C.V.	
	Comba Telecom y Servicios de México, S.A. de C.V.	
	Comba Technologies Sdn. Bhd.	
	Comba Telecomunicaciones del Peru S.A.C.	
	ETL Company Limited	
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL
Mr. Bu Binlong	<i>Group Companies</i>	<i>Group Companies</i>
	NIL	NIL
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL
Ms. Huo Xinru	<i>Group Companies</i>	<i>Group Companies</i>
	Comba Network Systems Company Limited (京信网络系统股份有限公司)	ScanViS Limited
	Comba Telecom Systems International Limited	
	Comba Telecom Limited	
	Comba Telecom Network Systems Limited	
	Rivera Power Limited	
	Comba Telecom Systems (Singapore) Pte. Ltd.	
	Comban Telecom Systems AB	
	Comba Telecom India Private Limited	
	Comba Telecom Macau Limited	
	PT. Comba Telecom	

	Present Directorships	Past Directorships
	Comba Telecom & Sistemas de México, S.A. de C.V.	
	Comba Telecom y Servicios de México, S.A. de C.V.	
	Comba Technologies Sdn. Bhd.	
	Comba Telecomunicaciones del Peru S.A.C.	
	Comba Telecom, S.L.U.	
	Comba Telecom Inc.	
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL
Mr. Wu Tielong	<i>Group Companies</i>	<i>Group Companies</i>
	Comba Network Systems Company Limited (京信网络系统股份有限公司)	NIL
	Rivera Power Limited	
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL
Mr. Lau Siu Ki, Kevin	<i>Group Companies</i>	<i>Group Companies</i>
	NIL	NIL
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	Binhai Investment Company Limited	China Medical & HealthCare Group Limited
	Embry Holdings Limited	
	FIH Mobile Limited	
	IVD Medical Holding Limited	
	Samson Holding Ltd.	
	TCL Electronics Holdings Limited	

	Present Directorships	Past Directorships
Dr. Lin Jin Tong	<p><i>Group Companies</i></p> <p>NIL</p> <p><i>Other publicly listed companies</i></p> <p>Tongding Interconnection Information Co., Ltd.</p> <p>UTStarcom Holdings Corp</p> <p>HC SemiTek Corporation</p>	<p><i>Group Companies</i></p> <p>NIL</p> <p><i>Other publicly listed companies</i></p> <p>Jiangsu Zhongtian Technology Co., Ltd.</p>
Ms. Ng Yi Kum	<p><i>Group Companies</i></p> <p>NIL</p> <p><i>Other publicly listed companies</i></p> <p>Tse Sui Luen Jewellery (International) Limited</p> <p>Tianjin Development Holdings Limited</p> <p>Powerlong Commercial Management Holdings Limited</p> <p>KWG Living Group Holdings Limited</p> <p>CMGE Technology Group Ltd.</p>	<p><i>Group Companies</i></p> <p>NIL</p> <p><i>Other publicly listed companies</i></p> <p>CT Vision S.L. (International) Holdings Limited</p> <p>China Power Clean Energy Development Company Limited</p>
Ms. Wong Lok Lam	<p><i>Group Companies</i></p> <p>NIL</p> <p><i>Other publicly listed companies</i></p> <p>NIL</p>	<p><i>Group Companies</i></p> <p>NIL</p> <p><i>Other publicly listed companies</i></p> <p>NIL</p>

EXECUTIVE OFFICERS

	Present Directorships	Past Directorships
Mr. Sun Shanqiu	<i>Group Companies</i>	<i>Group Companies</i>
	NIL	NIL
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL
Mr. Zhou Haitao	<i>Group Companies</i>	<i>Group Companies</i>
	NIL	NIL
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL
Mr. Li Xuefeng	<i>Group Companies</i>	<i>Group Companies</i>
	NIL	NIL
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL
Mr. Luo Ruibo	<i>Group Companies</i>	<i>Group Companies</i>
	NIL	NIL
	<i>Other publicly listed companies</i>	<i>Other publicly listed companies</i>
	NIL	NIL

Comba

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

京 信 通 信 系 統 控 股 有 限 公 司

(Company Registration Number: CR-117736)

(An exempted company incorporated in the Cayman Islands with limited liability on 17 May 2002)