Comba

京信通信系統控股有限公司

Comba Telecom Systems Holdings Limited

股份編號 Stock Code : 2342

Exploring Opportunities • Creating Value

開拓商機・創新價值

Reforming Mechanism • Enhancing Efficiency

變革機制・提升效能

2017

ANNUAL REPORT

年報

COMPANY PROFILE
公司概況

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

The Company has established its R&D headquarters based in Guangzhou Science City, four research institutions in Nanjing and Changsha in China, Washington City and California in the USA respectively and has applied over 2,900 Chinese and international patents. Our global manufacturing base located in Guangzhou Economic and Technological Development District, covers an area of approximately 80,000 square meters.

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

In September 2017, the Company has been officially included as a Partner of the China Mobile 5G Innovation Center, and has been selected as one of the "2017 Zhongce – Top 100 Chinese Patent Innovation Enterprises".

Additionally, the Company has been included into several indexes including MSCI China Small Cap Index, Hang Seng Composite Index (Information Technology Industry Index, MidCap & SmallCap Index and SmallCap Index), Hang Seng Global Composite Index, Hang Seng Internet & Information Technology Index, as well as Hang Seng Corporate Sustainability Benchmark Index.

京信通信系統控股有限公司(「本公司」)成立於1997年，於2003年在香港聯交所主板上市，是一家全球領先並集研發、生產、銷售及服務於一體的無線解決方案供應商。憑藉創新科技，本公司為全球客戶提供無線接入、無線優化、天線及子系統、無線傳輸等多元化產品及服務。

本公司在中國廣州科學城設有總部研發基地，並在中國南京及長沙、美國華盛頓市及加利福尼亞州分別設有研究所，已申請國內外專利超過2,900項。在中國廣州經濟技術開發區，本公司建有全球生產基地，廠房面積約80,000平方米。

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

2017年9月，本公司被授牌正式加入中國移動5G聯合創新中心，以及榮登「2017中策—中國企業專利創新百強榜」榜單。

此外，本公司已獲納入多項指數，包括MSCI中國小型股指數、恒生綜合指數(資訊科技業指數、中小型股指數及小型股指數)、恒生環球綜合指數、恒生互聯網科技業指數及恒生可持續發展企業基準指數。

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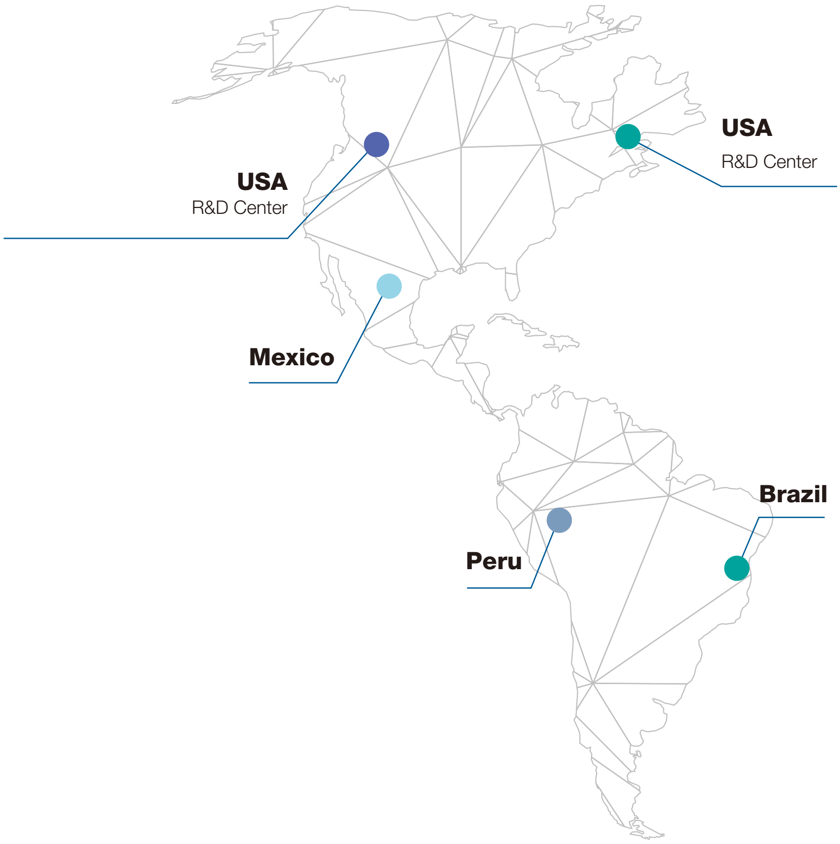
CORPORATE INFORMATION



BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling *(Chairman)*
Zhang Yue Jun *(Vice Chairman and President)*
Chang Fei Fu (appointed on 23 February 2018)
Yeung Pui Sang, Simon
Zhang Yuan Jian
Bu Binlong (appointed on 12 April 2018)
Wu Tielong (appointed on 12 April 2018)
Zheng Guo Bao (resigned on 23 March 2018)

Independent Non-Executive Directors

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

COMPANY SECRETARY

Chan Siu Man

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

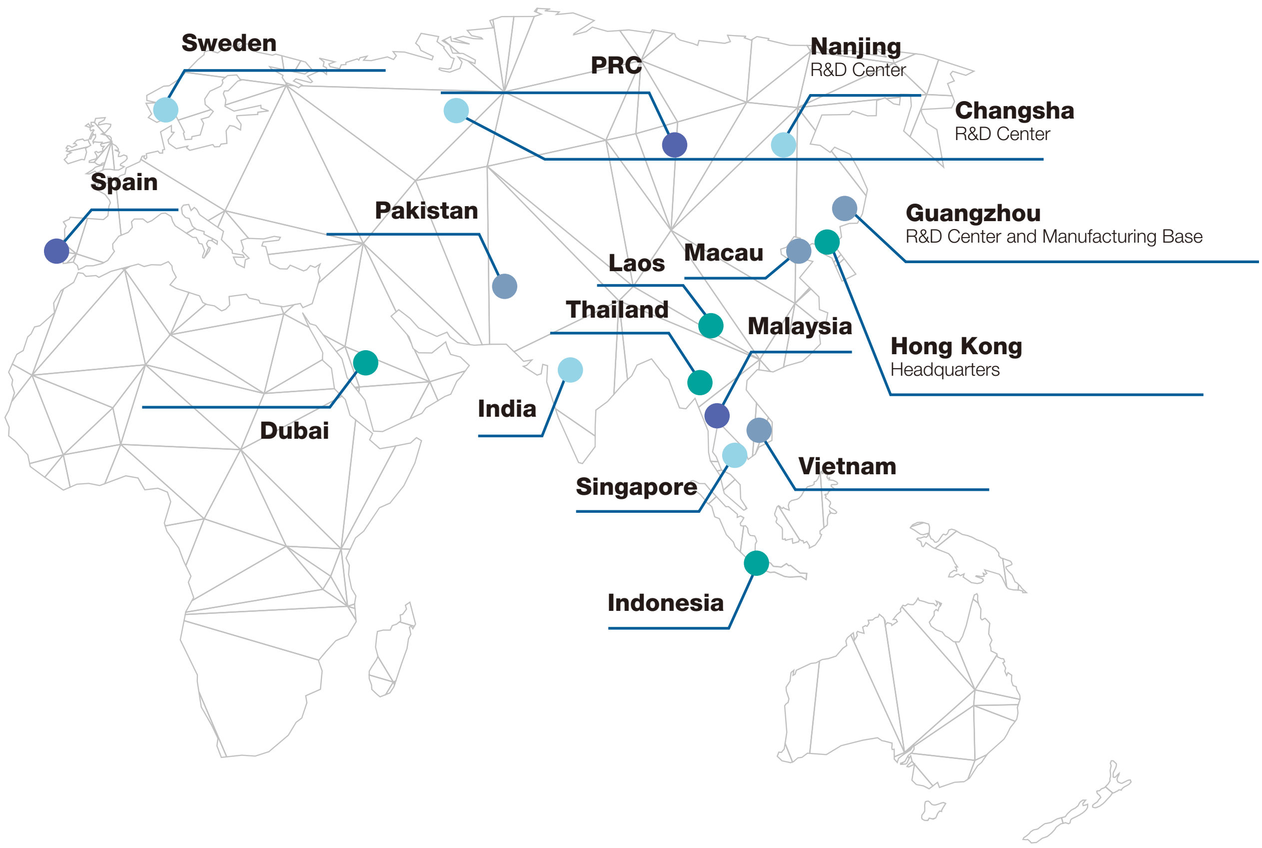
Fok Tung Ling
Chang Fei Fu (appointed on 23 February 2018)
Chan Siu Man (resigned on 23 February 2018)

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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



CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands
(changed with effect from 12 May 2017)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

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

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

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

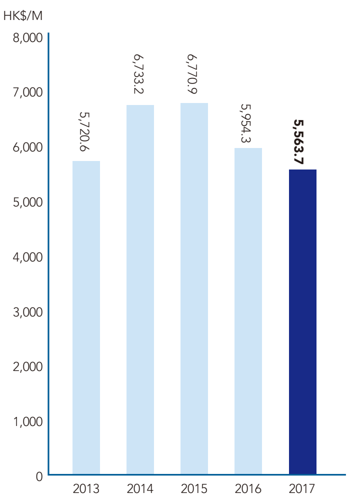
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road GETD District
Guangzhou PRC

Industrial and Commercial Bank of China Limited
GETD District Sub-branch
No. 2 Xiangxue Road
Kaichuang High Road North
Guangzhou Science City Luogang District
Guangzhou PRC

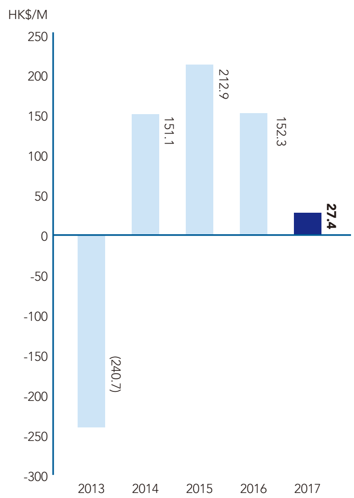
China Merchants Bank Co Ltd
Guangdong Branch Gaoxin Sub-branch
1 Huajing Road 1st Floor
Southern Communication Plaza
Guangzhou PRC

FINANCIAL SUMMARY

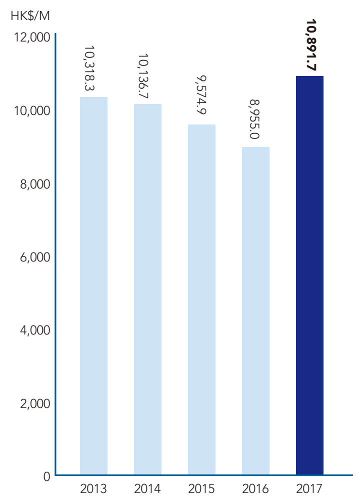
REVENUE



PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

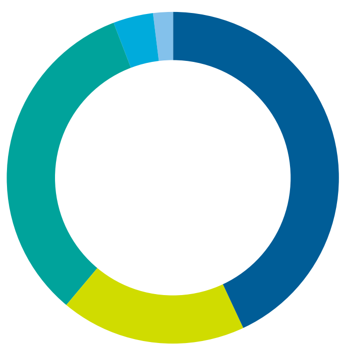


TOTAL ASSETS



REVENUE BREAKDOWN BY BUSINESSES

▲/▼ = YoY change



▼ 4.2% Antennas & Subsystems
43.1%

▼ 7.1% Network System
18.1%

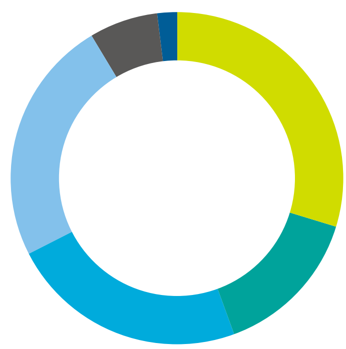
▼ 14.3% Services
33.2%

▲ 2.6% Others
3.9%

Operator Business
1.7%

REVENUE BREAKDOWN BY CUSTOMERS

▲/▼ = YoY change



▼ 5.3% China Mobile
29.9%

▼ 46.6% China Unicom
14.7%

▲ 9.3% China Telecom
23.1%

▲ 21.1% International Customers & Core Equipment Manufacturers
23.7%

▼ 3.2% Enterprise
6.9%

ETL
1.7%

FINANCIAL SUMMARY

For the year ended 31 December	2017 HK$'000	2016 HK$'000	Change
Revenue	**5,563,725**	5,954,328	(6.6%)
Gross profit	**1,437,028**	1,728,391	(16.9%)
Gross profit margin	**25.8%**	29.0%	(3.2)pp
Operating profit	**101,095**	301,628	(66.5%)
Profit attributable to owners of the parent	**27,373**	152,257	(82.0%)
Net profit margin	**0.5%**	2.6%	(2.1)pp
Basic earnings per share (HK cents)	**1.12**	6.23	(82.0%)
Paid interim dividends per ordinary share (HK cents)	**–**	1.5	N.A.
Proposed final dividends per ordinary share (HK cents)	**–**	0.8	N.A.
Total dividends per ordinary share (HK cents)	**–**	2.3	N.A.
Issued bonus of shares (interim)	**–**	1 for 10	N.A.
Net operating cash flows	**322,253**	411,666	(21.7%)

KEY FINANCIAL FIGURES

As at 31 December	2017 HK$'000	2016 HK$'000	Change
Total assets	**10,891,728**	8,954,959	21.6%
Net assets (before non-controlling interests)	**3,766,311**	3,437,687	9.6%
Net assets per share (HK dollars)	**1.53**	1.40	9.3%
Net (debt)/cash	**(72,261)**	260,800	(127.7%)
Cash and bank balances and time deposits	**1,510,119**	1,627,612	(7.2%)
Inventory turnover days	**120**	133	(13) Days
A/R turnover days	**274**	239	35 Days
A/P turnover days	**291**	266	25 Days
Gross gearing ratio	**14.5%**	15.3%	(0.8)pp
Dividend payout ratio *	**–**	36.9%	N.A.
Return on average equity	**0.8%**	4.3%	(3.5)pp

* Calculation is based on basic EPS.

CORPORATE MILESTONE 2017

Telecom Asia Small-Cell Innovation of the Year Award

Communication support for Fortune Global Forum in Guangzhou

Communication support for BRICS Summit in Xiamen

Deployed a turnkey wireless solution for the longest and busiest highway tunnel system in Brazil

DAS solution for Grand Hyatt Hotel Rio de Janeiro in Brazil

Tessco One 2017 Innovation Award (CriticalPoint™ Public Safety BDA)

Comba Telecom and Laos Government hosted an inauguration conference cum work handover ceremony for joint venture ETL Company Limited

CORPORATE MILESTONE 2017

Wireless networks coverage solution for MTR South Island Line (East) in Hong Kong

Provided emergency communications assistance for super typhoon Hato in Macau

Partner with ACOM Investment Corporation to accelerate in-building wireless systems in Vietnam

Provided emergency communications assistance for catastrophic flooding in Changsha, Hunan

Signed group-level base station antenna agreement with Ooredoo

Launch of 5G solutions

Became a partner of China Mobile 5G Innovation Center

CHAIRMAN'S STATEMENT

On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries ("Comba Telecom" or the "Group") for the year ended 31 December 2017 (the "Current Year").

Over the past year, the global economic growth gradually entered into a new period of recovery after years of lagging performance. After reaching a peak in 2015, the scale of investment in mobile telecommunication industry has slightly decreased. The Group's overall revenue during the Current Year decreased by 6.6% to HK$5,563,725,000 as compared with the year ended 31 December 2016 (the "Prior Year") while profit attributable to shareholders during the Current Year decreased by 82.0% to HK$27,373,000 as compared with the Prior Year. However, with the constant evolution in the mobile technology and the development of new mobile communication applications, the demand from the end consumers for mobile data traffic is increasing. The

CHAIRMAN'S STATEMENT

Group was committed to expanding new customers and exploring new businesses to create value for customers in a carefully considered and prudent manner while focusing on its traditional businesses. Complementing these efforts, the Group insisted on innovation to refine its business operations and boost its operational efficiency.

By virtue of its diligence in product development and careful attention to the trends in the wireless telecommunications industry over years, the wireless product portfolio and solutions provided by Comba Telecom have been widely recognized by the market. With the 4G technology evolving constantly, Comba Telecom undertook various bench-marking wireless projects over the past year, including frequency spectrum re-farming, construction of NB-IoT and wireless network enhancement projects for the leading operators as well as railway network coverage solutions for enterprises in Mainland China. It also made impressive achievements overseas, such as the network coverage and enhancement solutions for many countries and regions, including the Eurasia Tunnel, Hong Kong (South Island Line (East) of the MTR), Vietnam, Australia, India, Middle East, Brazil and Turkey. The Group's core information and telecommunication service products has enabled it to maintain a leading market position globally.

Meanwhile, in response to the evolution, development and application of telecommunication technologies, the Group also proactively devoted itself into relevant research and development, and has been granted numbers of patents. It ranked among the list of "Zhongce – Top 100 Enterprise Patented Innovators in China in 2017" (2017中策–中國企業專利創新百強榜) and gained various awards and recognition, including but not limited to "Small-Cell Innovation of the Year Award" (年度小基站創新大獎) and the "Gold Prize of Patented Invention for its Ultra-Wideband Dual-Band Combiner" (超寬頻雙頻合路器「發明專利金獎」). Also, with gradual introduction of the 5G Standard, the Group has been officially included as a Partner of the China Mobile 5G Innovation Center to jointly promote the development of 5G industry. It has been playing an important role in the 5G network trials currently carried out in numerous large cities in the world.

Looking ahead, the environment for industry development and revolution is expected to remain promising. Pursuant to the schedule of International Telecommunication Union (ITU) and 3GPP, each being an organization for standardization, the Standard for 5G is going to be confirmed. To follow the trend of rapid information and telecommunication development and accelerate deep integration of real economy and digital economy, the Group will be committed to improving its competitiveness, continuously fortifying and expanding its client base, and focusing on its customers and products, so as to provide customized technologies, solutions and services to telecommunication operators, core equipment suppliers and specialized government and enterprise customers. Moreover, the Group will accelerate its pace in automatic and intelligent transformation of its businesses.

Meanwhile, the Group has completed the acquisition of 51% equity interests in ETL Company Limited ("ETL"), the third largest telecommunications operator in the Lao People's Democratic Republic ("Laos"), in the Current Year for the purpose of further business expansion and improvement of its overall operating performance. Capitalizing on the advantages over the network deployment and operational management over the years, the Group is proactively commencing and facilitating the planning and investment work, hence to accelerate the Group's business penetration into the telecommunication market in Laos. As one of the fastest growing countries in economy in southeast Asia, Laos boasts sound development environment and favorable strategic location in the "One Belt One Road" designated area, which will help the Group to create a business mode suitable for its development and operation. We feel confident with the prospect of this strategic acquisition and the synergy effect arising therefrom.

CHAIRMAN'S STATEMENT

Currently, the Group operates worldwide and enjoys stable growth in the overseas business. To satisfy the demands generated by industrial transformation and upgrade, the Group is strengthening its deep cooperation with global leading telecommunications operators and core equipment suppliers simultaneously, following the trend of information technologies, thereby enabling it to accelerate the development of technologies and products, maintain its industrial-leading position and focus on its strategic development direction.

In 2018, it is expected that the continuously transforming and developing economy and society, rising competition in information and telecommunication industry, as well as accelerating technology evolution and industry reformation, will present both opportunities and challenges to the industry and the Group. Driven by its core value of "Creating Ideal Values for Customers" and mission of "Connecting the World to Promote the Progress of Human Civilization" consistently, the Group will "explore opportunities, create value, reform mechanism, enhance efficiency", and innovate and develop in the information and telecommunication industry to provide outstanding telecommunication and information solutions and services to its customers. Against the backdrop of continuous 4G technologies evolving and gradual establishment of 5G Standard, the Group will continue to promote its transformation and development, strengthen the research and development of new 5G products and technologies, improve automated and intelligent production capability while remaining committed to creating more value and results in the future in return for years of support from its shareholders.

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

Fok Tung Ling
Chairman
Hong Kong
22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

REVENUE

Comba Telecom Systems Holdings Limited (the "Company" or "Comba Telecom") and its subsidiaries (collectively referred to as the "Group") reported revenue amounting to HK$5,563,725,000 (2016: HK$5,954,328,000) for the year ended 31 December 2017 (the "Current Year"), representing a decrease of 6.6% over the year ended 31 December 2016 (the "Prior Year"). The decrease was mainly affected by the relative macro-economic slowdown of growth in mainland China and the saturation of 4G investment as well as 5G network deployment still being in the incubation period, thus the leading operators in Mainland China reduced their capital expenditures and overall investment subsequently decreased.

By Customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") was HK$1,662,626,000 (2016: HK$1,756,149,000), representing a decrease of 5.3% over the Prior Year, accounting for 29.9% of the Group's revenue in the Current Year, compared with 29.5% in the Prior Year.

During the Current Year, revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as the "China Unicom Group") decreased by 46.6% over the Prior Year to HK$820,260,000 (2016: HK$1,536,667,000), accounting for 14.7% of the Group's revenue in the Current Year, compared with 25.8% in the Prior Year.

During the Current Year, revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") increased by 9.3% over the Prior Year to HK$1,287,415,000 (2016: HK$1,178,199,000), accounting for 23.1% of the Group's revenue in the Current Year, compared with 19.8% in the Prior Year.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Current Year, revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and specialized government and enterprise network customers, slightly decreased by 3.2% to HK$381,362,000 (2016: HK$393,821,000) and represented 6.9% (2016: 6.6%) of the Group's revenue. The revenue declined due to decreasing demand for the indoor coverage system by China Tower in the Current Year despite growing demand for wireless solutions for specialized government and enterprise networks. The management has full confidence in the revenue contribution by specialized government and enterprise network customers in the future.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 21.1% in aggregate to HK$1,319,037,000 (2016: HK$1,089,492,000), accounting for 23.7% (2016: 18.3%) of the Group's revenue in the Current Year. Benefitting from the global economic recovery as well as further deepening strategic cooperation with leading international operators and core equipment manufacturers, revenue generated from international customers and core equipment manufacturers increased substantially and the business had a significant breakthrough in important regions which resulted in a greater improvement in performance.

At the end of July of the Current Year, the Group has completed the acquisition of 51% equity interests in ETL Company Limited ("ETL"), the third largest state-owned telecommunication operator in the Lao People's Democratic Republic ("Laos"). Revenue from ETL was HK$93,025,000, accounting for 1.7% of the Group's revenue in the Current Year, among which, the EBITDA from ETL was HK$28,502,000. Since the acquisition of ETL, the Group has actively initiated its network and investment planning, with an aim to commence businesses in Laos as soon as possible so as to achieve better performance and further penetrate that market.

By Businesses

During the Current Year, revenue generated from the antennas and subsystems business slightly decreased by 4.2% over the Prior Year to HK$2,396,884,000 (2016: HK$2,501,516,000), accounting for 43.1% (2016: 42.0%) of the Group's revenue in the Current Year. The decrease in revenue was mainly due to overall declining market demand as 4G network build-outs were basically completed in Mainland China. However, the Group has continued to develop new products and technologies, and strengthen expansion of its markets overseas while continuing to actively develop the domestic market. The management has full confidence in the stable operation and sustainable development of the antennas business.

During the Current Year, revenue generated from the network system business (including wireless enhancement and wireless access) decreased by 7.1% over the Prior Year to HK$1,005,010,000 (2016: HK$1,081,887,000), accounting for 18.1% (2016: 18.2%) of the Group's revenue. Among which, revenue generated from the wireless enhancement business decreased by 19.3% over the Prior Year to HK$714,111,000 (2016: HK$885,040,000). However, revenue generated from the wireless access business increased significantly by 47.8% over the Prior Year to HK$290,899,000 (2016: HK$196,847,000), especially the revenue from Small Cell products which greatly increased by 53.2% over the Prior Year to HK$275,483,000 (2016: HK$179,791,000). With enrichment of the content of mobile Internet applications, the demand for data traffic from mobile users has experienced exponential growth. Thus the management expects that the scale of the network system business, especially the wireless access business, will gradually expand.

During the Current Year, revenue from services declined 14.3% over the Prior Year to HK$1,847,466,000 (2016: HK$2,155,189,000), accounting for 33.2% (2016: 36.2%) of the Group's revenue. In view of the increasingly competitive market environment, the Group will continue to secure new customers in the industry while developing the operators' market, thereby strengthening the Company's position in the industry and boosting its market share. As more and more applications will be developed on a customized basis in the future, the management expects that the services business will bring a new source of profit growth for the Group.

GROSS PROFIT

During the Current Year, the Group's gross profit decreased by 16.9% over the Prior Year to HK$1,437,028,000 (2016: HK$1,728,391,000). The gross profit margin was 25.8% in the Current Year (2016: 29.0%), down by 3.2 percentage points compared with the Prior Year. The decrease in gross profit margin was mainly due to the reduced capex from leading operators and the decrease of prices arisen from the saturation of 4G products despite the management of the Group has taken many measures to reduce the costs. However, the Group will proactively take measures to enhance production efficiency and reduce production costs by optimizing production systems, enhancing the level of automated and intelligent production, so as to improve gross profit margin of its products.

The Group will continue to enhance the production capabilities optimize the product mix and ramp up the scale of new products and new businesses in order to further improve the gross profit margin.

RESEARCH AND DEVELOPMENT ("R&D") COSTS

During the Current Year, R&D costs substantially increased by 45.6% over the Prior Year to HK$331,328,000 (2016: HK$227,608,000), representing 6.0% (2016: 3.8%) of the Group's revenue. With rapid development of information and telecommunications technologies and applications as well as acceleration of 5G development globally, in order to better develop 5G solutions and keep abreast of technological advances in the industry, the Group has considerably increased its R&D investments, and continuously fosters innovation and enhances its competitiveness in order to capture business opportunities amidst the digitalization of the mobile telecommunications industry.

On top of its own R&D investments, the Group has also sought to expand its strategic collaboration with other enterprises. During the Current Year, Comba Telecom has officially joined the China Mobile 5G Joint Innovation Centre to work with industry partners in order to explore innovative solutions and future development trends and undertake joint efforts to accelerate the development of the 5G industry.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the "Zhongce – Top 100 Enterprise Patented Innovators in China in 2017" (《2017中策–中國企業專利創新百強榜》) was announced on 31 August during the Current Year. Based on an outstanding integrated patented innovation track record, Comba Telecom ranked 49th among the Top 100 Enterprise Patented Innovators in China in 2017, and ranked 12th and 2nd among enterprises in Guangdong and Guangzhou respectively.

Through its strong commitment to R&D, the Group has realized significant achievements in creating its own solutions with proprietary intellectual property and has applied for more than 2,900 patents as at the end of the Current Year (As at 31 December 2016: approximately 2,400 patents).

SELLING AND DISTRIBUTION EXPENSES

During the Current Year, S&D expenses decreased by 6.2% over the Prior Year to HK$510,499,000 (2016: HK$544,071,000), representing 9.2% (2016: 9.1%) of the Group's revenue. The Group is further boosting business efficiency in order to maintain such selling and distribution expenses at an optimal level.

ADMINISTRATIVE EXPENSES

During the Current Year, administrative expenses decreased by 18.9% over the Prior Year to HK$575,677,000 (2016: HK$709,647,000), representing 10.3% (2016: 11.9%) of the Group's revenue. The decline in the administrative expenses was mainly due to the Group's continuous efforts to optimize its operating structure and human resources.

FINANCE COSTS

During the Current Year, finance costs slightly increased by 1.7% over the Prior Year to HK$47,861,000 (2016: HK$47,040,000), representing 0.9% (2016: 0.8%) of the Group's revenue. The increase in finance costs was mainly due to an increase in bank borrowings during the Current Year over the Prior Year.

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

In addition, the management has utilized the advantages of interest and foreign exchange rate differentiation among different countries in order to minimize finance costs. As of 31 December 2017, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a healthy level of 14.5% compared with 15.3% as of 31 December 2016.

OPERATING PROFIT

During the Current Year, the operating profit of the Group decreased by 66.5% to HK$101,095,000 (2016: HK$301,628,000). The decrease in the operating profit was mainly attributable to the decrease in gross profit during the Current Year.

TAX

During the Current Year, the Group's overall taxation charge of HK$29,185,000 (2016: HK$99,726,000) comprised an income tax expense of HK$38,745,000 (2016: HK$77,629,000) and a deferred tax credit of HK$9,560,000 (2016: deferred tax charge of HK$22,097,000). The decrease in the overall taxation charge was mainly due to the decrease in operating profit of the Group.

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

NET PROFIT

During the Current Year, with the decline of operating profit of the Group, profit attributable to owners of the parent ("Net Profit") was HK$27,373,000 (2016: HK$152,257,000), representing a decrease of 82.0% compared with the Prior Year.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

In view of the Group's operating results for the Current Year and taking into consideration its long-term future development and flexibility of its financial position, the board of directors (the "Board") does not recommend the payment of 2017 final dividend (2016: HK0.8 cents).

PROSPECTS

During the Current Year, China's gross domestic product (GDP) grew 6.9% year-on-year as compared with a global economic growth of 3.6%. With growth accelerating in most economies around the world, the global economy gradually entered a new cycle of recovery, while China's economy has become an important driver for global economic growth.

Looking ahead to 2018, the global economy is expected to further recover after many years of fluctuation at low levels. The mobile telecommunications industry is an important pillar of the national economy and an integral foundation for the entire social and economic operation system. Despite construction of 4G networks approaching completion in Mainland China, the number of mobile telecommunications end users and the volume of mobile telecommunications traffic are increasing, which will lead to demand for broader wireless telecommunications coverage and better wireless network telecommunications quality. Meanwhile, the rapid development of mobile telecommunications will further accelerate the launch of 5G networks. Therefore, the Group remains optimistic about the prospects for its business development and growth. Furthermore, the Group will closely monitor market changes and adjust strategies in a timely manner.

NETWORK BUSINESS FOR OPERATORS

1. ANTENNA AND BASE STATION SUBSYSTEMS

The Group has a long-established leading position in the antenna market and has been named as a global Tier 1 Supplier for six consecutive years since 2011 by EJL Wireless Research, an industry analyst firm. With increasingly fierce market competition, the Group has actively strengthened its self-development capabilities, and has a wide antenna products portfolio ranging from single-frequency to multi-frequency and single-system to multi-system solutions covering all frequencies and standards, which can meet the various requirements of different customers.

During the Current Year, the Group has launched the smallest cross-section 4+4 port antenna in the industry, which is currently the mainstream model for narrow-band Internet-of-things projects in Mainland China. The Group has also launched a state-of-the-art miniaturized "4488 antenna" in the industry, which can support all current coverage bands of China Mobile (900/1800/TD-LTE) and realize the coordinated deployment of narrow-band Internet-of-things and TD-LTE networks, with the ability to subsequently evolve to FDD 4T4R.

In the meantime, pursuant to the schedule of the International Telecommunication Union (ITU) and 3GPP, each being an organization for standardization, the Standards for 5G will be gradually completed in 2018, and the deployment of 5G networks will soon follow. As such, the Group is undertaking the intense development of 5G antennas through cooperation with operators, industry partners, scientific and research institutions

MANAGEMENT DISCUSSION AND ANALYSIS

and universities. The introduction of these advanced technologies will help upgrade the value of the antenna. The Group will continue to allocate more resources to develop the latest technology, and continue to advance its R&D capabilities and innovation by proactively allocating resources so as to thoroughly prepare for 5G development, and extend its competitive advantages to 5G technology.

2. NETWORK PRODUCT SYSTEM SOLUTIONS

With evolution of technologies in the mobile telecommunications industry, the volume of data traffic of users has shown explosive growth driven by various Internet applications, such as video streaming, games and WeChat social media. According to industry analysis and forecast, based on the current growth rate, the proportion of data consumption is expected to grow in 2018. In order to meet the demand of mobile users, improved network quality and expanded network coverage will benefit relevant industries.

Meanwhile, the construction plan appears to be clearer with the gradual deployment for the trial of 5G in Mainland China, either for high-speed download application of enhanced mobile broadband (eMBB), Internet-of-things application of massive machine type communications (mMTC) or Internet-of-vehicles application of ultra-reliable and low latency communications (uRLLC). The mobile telecommunications network will continue to bring in additional mobile data traffic based on these hotspots or industry applications in the future. In addition, the high-frequency band signal used by the 5G telecommunication network has poor penetration capability despite its advanced features, leading to relatively small network coverage. In order to expand coverage, the demand for innovative indoor coverage network products will rise.

The Group has been committed to the R&D and technological innovation of indoor coverage network products for many years. In particular, the technological innovation of the wireless access products represented by its Small Cell series has been at the forefront of the industry. The Small Cell solutions provided by the Group have been put into commercial and trial use in a number of provinces across China. In the meantime, the Group has also launched several network product system solutions including a Small-Cell based Densified Networking System, Innovative Indoor Coverage System, MDAS (Multi-Service Fiber Optic Distributed Access System) and DAS (Distributed Antenna System), among others.

In-building deployment is a main scenario of mobile Internet applications. The innovative indoor coverage network system solutions of the Group provide large data traffic access for areas with weak or non-existent coverage, and it expects scalable promotion of these solutions to gradually commence in Mainland China. Meanwhile, the Group will proactively invest in 5G indoor coverage technology and applications, and develop Software Defined Network (SDN) and Network Function Virtualization (NFV) technologies. The Group believes that its indoor coverage network products and solutions will be widely utilised in network build-outs in the future, especially after the launch of 5G, and provide a good network experience to end customers.

SPECIALIZED GOVERNMENT AND ENTERPRISE NETWORK CONSTRUCTION AND NEW BUSINESS

With rapid development across various sectors, the market scale for the specialized enterprise network communication industry has demonstrated a rising trend. It is forecast that the global specialized network communication market will continue to maintain stable growth to reach RMB110 billion in 2018 and increase in the future.

In the meantime, specialized network communications are experiencing transformation driven by increasing digitalization and deployment of broadband. During the Current Year, the Group has made important breakthroughs in the specialized railway communications market, secured a number of railway projects and successfully passed the LTE-M broadband cluster test for railway communications. The Group will continue to strengthen the railway communications business, explore the specialized railway communications market and further improve and expand the industrial layout in the specialized network communications market.

During the Current Year, the Group has also strived to promote the maritime Internet-of-vessels business. The Group will strengthen the market competition analysis and customer research of end customers and undertake greater efforts in marketing, so as to provide more and better products and solutions to maritime users.

In addition, the application of the Internet-of-things has changed considerably, and vertical applications represented by the expanding smart cities, intelligent manufacturing, etc., are under comprehensive development, which further promotes the information technology construction in the telecommunications industry. With a determined focus, the Group has grasped the social and industry development trends, and successfully joined the "Industrial Internet Industry Ecological Supply Pool in Guangdong Province" (廣東省工業互聯網產業生態供給資源池) during the Current Year. Moreover, the Group has strengthened the development of new technologies for vertical applications such as smart community and intelligent manufacturing, and developed integrated information, communications and intelligent solutions, so as to provide customized and more diversified professional services based on the different applications of customers.

INTERNATIONAL BUSINESS

According to statistics, mobile phone subscribers exceeded 5 billion during the Current Year, while the population access to the mobile Internet only accounted for approximately 50% of the total population in the world. The globally imbalanced development of mobile telecommunications services between developed regions and less developed regions brings about a large number of potential users. As such, the network construction in countries or regions without advanced 4G networks and with a smaller proportion of the population having access to the mobile Internet is expected to be a potential source of growth for the telecommunications industry.

During the Current Year, the international business has grown rapidly due to global economic recovery and the Group is actively seeking business opportunities for its international marketing platform and strengthening strategic cooperation with leading international equipment manufacturers. The Group has made significant breakthroughs in important areas, e.g. cooperating with a leading telecoms operator in India to participate in its national wireless network enhancement, providing base station antenna products to the largest telecoms operator in Brazil to expand its 4G LTE network coverage, reaching major agreements with a Turkish telecoms operator on antennas and network products to accelerate its network connection, and concluding a cooperation agreement with an Australian telecoms operator to provide wireless network enhancement throughout that country. These projects demonstrate the Group's advanced technology and extensive experience in wireless solutions, as well as its capabilities and leading position in global business expansion.

In the meantime, telecom operators are actively preparing for the new era of 5G by actively expanding and improving network coverage. The Group will also strengthen its strategic partnership with the leading global major telecoms operators and core equipment manufacturers, and work closely with them to develop 5G products to meet the demand of such applications as big bandwidth, low latency and massive access in the 5G era, and enhance its competitiveness in the international market.

MANAGEMENT DISCUSSION AND ANALYSIS

SMALL AND MEDIUM OPERATOR – ETL BUSINESS

At the end of July in the Current Year, the Group has completed the acquisition of 51% equity interest in ETL, the third-largest state-owned operator in Laos, successfully completed the handover of ETL's management, and approved the investment plan for building up its own 4G LTE network at the end of the Current Year.

Located in the center of the Indochina peninsula and Lancang River-Mekong River Cooperation Basin, Laos is one of the major countries and strategic fulcrums along the regions covered by China's "One Belt One Road" strategic initiative with prominent geographical advantages. As one of the countries with the fastest economic growth rates in Southeast Asia, the Laotian economy has maintained rapid development in recent years with an average GDP growth rate of approximately 7.5% and steadily rising per capita consumption expenditure, establishing a good development base and environment for the telecommunications industry in the future. In particular, the completion of construction of the China-Laos Railway will substantially improve the traffic conditions in Laos and strengthen its position in regional economic cooperation. With the vigorous promotion of the "One Belt One Road" initiative in China and the establishment of the China-ASEAN Free Trade Area, on the one hand, it lays a solid foundation for the trading relationship between China and Laos. On the other hand, it provides a favorable development environment and convenient access for the Group to carry out its telecommunications business in the region.

ETL holds a full set of licenses required for telecoms operations and a nationwide optical network in Laos with a diversified customer base, including government organs and leading business enterprises in Laos. The Group has mainly provided products and services to telecoms operators since its establishment, and now is gradually expanding to enter small-and-medium operators business through transformation. Since the completion of the acquisition of ETL during the Current Year, with years of competitive advantages and abundant experience, the Group has rapidly commenced work in a variety of areas such as network analysis, network planning, market layout in key regions, etc. to accelerate the network construction in the telecommunications market within Laos. The Group aims to develop ETL as a leading operator in terms of scale, efficiency and competitiveness as soon as possible to provide telecommunication network, telecommunication services and other value-added services in the telecommunications market in Laos, and continuously enhance the Group's performance and profitability. The Group has high expectations for the business prospects and development of ETL.

CONCLUSION

In today's fast-moving environment, despite the rising growth trend at a stable pace in the global economy, there are still many difficulties and challenges in economic operation, and change is unavoidable, particularly in the mobile telecommunications industry. Enterprises need to be innovative in their business, articulate new strategies, strengthen strategic management, enhance operational efficiency, concentrate on operating profits and reasonably allocate resources. The management will continue to mobilize the Group's reform engine by maintaining strong execution capabilities to advance the overall business to new heights.

The Group will continue to adhere to its customer-centered core value of "Creating Ideal Value for customers," continue to explore market opportunities, and actively formulate and implement overall business objectives. The Group will remain committed to the development of new 5G technologies and products, making great efforts to create value for its customers, and striving to achieve its business objectives and strategic goals.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 31 December 2017, the Group had net current assets of HK$2,410,536,000. Current assets comprised inventories of HK$1,360,255,000, trade receivables of HK$4,522,757,000, notes receivable of HK$85,447,000, tax recoverable of HK$48,693,000, prepayments, deposits and other receivables of HK$886,365,000, restricted bank deposits of HK$234,769,000, and cash and cash equivalents of HK$1,176,129,000. Current liabilities comprised trade and bills payables of HK$3,682,536,000, other payables and accruals of HK$1,063,016,000, interest-bearing bank borrowings of HK$1,088,489,000 and provisions for product warranties of HK$69,838,000.

The average receivable turnover for the Current Year was 274 days compared to 239 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Year was 291 days compared to 266 days for the Prior Year. The average inventory turnover for the Current Year was 120 days compared to 133 days for the Prior Year.

As at 31 December 2017, the Group's cash and bank balances were mainly denominated in RMB, HK$ and US$ while the Group's bank borrowings were mainly denominated in RMB and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a few term loan facility agreements with certain financial institutions. Details of bank borrowings are set out in note 27 to the consolidated financial statements.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. In view of the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 31 December 2017, the Group has not engaged in hedging activities for managing RMB exchange rate risk.

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 14.5% as at 31 December 2017 (31 December 2016: 15.3%).

MATERIAL ACQUISITIONS AND DISPOSALS

During the Current Year, the Group has completed the acquisition of 51% interest in ETL, which holds a full license of telecom operations and is the third largest telecom operator in Laos.

For details of the acquisition, please refer to the announcements of the Company dated 1 September 2016 and 17 October 2016.

RESTRICTED BANK DEPOSITS

Deposit balances of HK$333,990,000 (31 December 2016: HK$207,398,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had contingent liabilities of HK$302,276,000 (31 December 2016: HK$209,426,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had approximately 7,900 staff, out of which 1,400 staff from ETL which acquisition was completed during the Current Year (31 December 2016: 7,000 staff). The total staff costs, excluding capitalized development cost, for the Current Year were HK$1,061,458,000 (31 December 2016: HK$1,138,982,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management of the Group.

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Fok Tung Ling (霍東齡), aged 61, is one of the founders of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). He is the chairman of the board of directors (the "Board") and the authorized representative of the Company. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Fok is primarily responsible for leading the Board in determining the directions of the Group's overall strategies and business development. From 1982 to 1987, Mr. Fok worked as a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from Beijing Institute of Posts and Telecommunications (北京郵電學院) (currently known as Beijing University of Posts and Telecommunications (北京郵電大學)), majoring in microwave communications. Prior to 1991, Mr. Fok worked as a marketing executive in China National Electronics Import & Export Corporation, South China Branch (中國電子進出口有限公司華南分公司) which was engaged in the import and export of electronic products. From 1991 to 1997, he was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 36 years of experience in wireless communications. He is the sole director and shareholder of Prime Choice Investments Limited, which is a controlling shareholder of the Company. Mr. Fok is the father of Ms. Huo Xin Ru.

Mr. Zhang Yue Jun (張躍軍), aged 59, is one of the founders of the Group. He is the vice chairman of the Board and president of the Group. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Zhang is responsible for the Group's overall operation, management, business development, research and development of new technologies and products and supply chain system. Mr. Zhang graduated from South China Institute of Technology (華南工學院) (currently known as South China University of Technology (華南理工大學)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997, he was the deputy chief engineer of a joint venture company in Shenzhen and was mainly responsible for wireless telecommunications projects. Mr. Zhang has over 35 years of experience in wireless communications and he co-founded the Group in 1997. He is the sole director and shareholder of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chang Fei Fu (張飛虎), aged 43, is an executive director of the Company and the group chief financial officer. He is also the authorized representative of the Company. Mr. Chang holds various positions in the subsidiaries of the Company, including acting as director, company secretary and chief financial officer and acted as supervisor in certain subsidiaries of the Company. He is mainly responsible for the overall financial management of the Group, as well as listed company related matters and investor relations duties. Mr. Chang has obtained a master degree in engineering economic systems from Stanford University, the USA and a bachelor degree in electrical engineering from the University of Michigan, the USA. He has over 20 years of experience in corporate finance, merger and acquisition, financial analysis, research, capital markets and asset management. Prior to joining the Group, Mr. Chang has worked in financial institutions and corporates in Hong Kong, China and Japan, including the Hong Kong Stock Exchange, Bank of America Merrill Lynch (Hong Kong and Tokyo), Rockhampton Management (Tokyo), Barclays Capital (Hong Kong). During 2011, Mr. Chang joined China Mobile Games and Entertainment Group Limited ("CMGE") in the founding member team as an executive director and chief financial officer. He led CMGE to its listing on the United States NASDAQ Stock Exchange in September 2012, conducted a series of equity fund raisings including CMGE's initial public offering, as well as its privatization. Mr. Chang left CMGE in August 2015 after the company completed its privatization. Mr. Chang then joined 郵樂網 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 joined the Group in 2016.

Mr. Yeung Pui Sang, Simon (楊沛燊), aged 45, is an executive director of the Company and president of Comba Telecom Systems International Limited, an indirect wholly-owned subsidiary of the Company. He also acts as director of certain subsidiaries of the Company. Prior to joining the Group, Mr. Yeung was the vice president of strategy & business development and a founding employee of LGC Wireless, Inc. ("LGC") based in the Silicon Valley, USA which was successfully acquired by Commscope Inc. He also held various positions at LGC including the general manager of a business unit, director of technical marketing, general manager of Asia Pacific Region and principal engineer. Mr. Yeung received the Young Industrialist Awards of Hong Kong 2016. Mr. Yeung holds a master of science degree in engineering from University of California at Berkeley USA and a bachelor of science degree in electrical engineering from Purdue University, the USA. He has over 22 years of experience in the telecom industry. Mr. Yeung joined the Group in 2004.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Yuan Jian (張遠見), aged 60, is an executive director of the Company and senior vice president of the Group. He was also the director of the Research Institute of the Group. Mr. Zhang is in charge of the products and research and development system of the Group and the management of the development and operational strategy of the network system products. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Zhang graduated from the University of Science and Technology of China (中國科學技術大學) and the Electronic Engineering Research Center of Nanjing (南京電子工程研究中心) (currently known as the Nanjing Institute of Electronic Technology (南京電子技術研究所)) and obtained a master's degree in microwave technology in 1984. He has over 34 years of experience in the technical research on wireless communications, product development and relevant management. Mr. Zhang joined the Group in 2004.

Mr. Bu Binlong (卜斌龍), aged 55, is an executive director of the Company. He is also senior vice president of the Group and head of the strategic operation office and chief scientist of antenna and subsystem business unit (ASBU) business lines in charge of the group management committee and ASBU. Mr. Bu graduated in 1985 from Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學)) and obtained a master's degree in electronic magnetic field and microwave technology from Xidian University (西安電子科技大學) in 2002. Mr. Bu has over 32 years of technical research experience in the domain of satellite antennas and mobile communications antennas. Mr. Bu was appointed as an adjunct professor of the key laboratory for antenna and electromagnetic compatibility of Xidian University (西安電子科技大學) in 2010, elected as the vice chairman of the communication antenna special committee of the Antenna Branch of Chinese Institute of Electronics in 2011, and elected as the vice chairman of the Antenna System Industry Alliance of the PRC in 2017. Mr. Bu joined the Group in 2003.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Tielong (吳鐵龍), aged 54, is an executive director of the Company. He is also senior vice president and general manager of the marketing center of the Group and in charge of the public network business unit. Mr. Wu is responsible for the operation and management of the Group's sales platform in the PRC. Mr. Wu graduated from the Nanjing Institute of Communication Engineering (南京通信工程學院) in 1985 and obtained a bachelor's degree in communication engineering. He was an associate professor. Mr. Wu has over 14 years of experience in the operation and management in the market of communications. Mr. Wu joined the Group in 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Siu Ki, Kevin (劉紹基), aged 59, is an independent non-executive director of the Company. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Lau has over 35 years of experience in corporate 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 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 (香港會計師公會). Mr. Lau was a member of the world council of ACCA from 2002 to 2011 and was the chairman of the Hong Kong Branch of ACCA for the year 2000/2001. He is also an independent non-executive director of six other companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") namely China Medical & HealthCare Group Limited, FIH Mobile Limited, Samson Holding Ltd., Embry Holdings Limited, Binhai Investment Company Limited and TCL Multimedia Technology Holdings Limited. In addition, he was also an independent non-executive director of UKF (Holdings) Limited, a company listed on the main board of the Stock Exchange, until his resignation on 15 March 2016 and an independent non-executive director of TCL Communication Technology Holdings Limited, a company listed on the main board of the Stock Exchange, until it was privatized on 30 September 2016. Mr. Lau 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 Stock Exchange, until his retirement on 28 June 2017. He is also the company secretary of Yeebo (International Holdings) Limited and Hung Fook Tong Group Holdings Limited, both companies listed on the main board of the Stock Exchange, and also Expert Systems Holdings Limited, a company listed on the growth enterprise market of the Stock Exchange. Mr. Lau joined the Group in 2003.

Dr. Lin Jin Tong (林金桐), aged 72, is an independent non-executive director of the Company. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company. Dr. Lin is currently a professor of Beijing University of Posts and Telecommunications ("BUPT") (北京郵電大學). He graduated from Peking University (北京大學) majoring in Physics, and obtained a master's degree in engineering from BUPT. Dr. Lin further obtained a doctorate degree in Philosophy and an honorary doctorate degree in Science from University of Southampton, UK. He has worked as lecturer, professor, department head, vice president of BUPT and was also the president of BUPT from 1998 to 2007. Dr. Lin was also a member of the 10th Beijing Municipal Committee of the Chinese People's Political Consultative Conference from 2003 to 2008. He was a deputy director-general of China Institute of Communications and is currently a fellow member of The Institution of Engineering and Technology. Dr. Lin has long been engaged in optical communication engineering, including research and teaching in the aspects of high-speed optical communication system and broadband optical access network. Dr. Lin is currently a director of Jiangsu Zhongtian Technology Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange and an independent director of Tongding Interconnection Information Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange. He had been an independent director of Bright Oceans Inter-Telecom Corporation, the shares of which are listed on the Shanghai Stock Exchange, until his retirement in September 2015. Dr. Lin had also been an independent director of Jiangsu Tongguang Electronic Wire & Cable Corp., Ltd., the shares of which are listed on the Shenzhen Stock Exchange, until his retirement on 11 November 2014. He joined the Group in 2012.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Qian Ting Shuo (錢庭碩), aged 69, is an independent non-executive director of the Company. He is also the member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Qian is currently a member of the standing committee of Science and Technology Committee of Ministry of Industry and Information Technology (工業和信息化部). He graduated from Beijing University of Posts and Telecommunications (北京郵電大學) and obtained a bachelor's degree in engineering. Mr. Qian was the deputy director and vice-president of the Planning Institute of the Ministry of Post and Telecommunications (郵電部規劃所) of the PRC (currently known as the China Academy of Telecommunication Planning Research of Ministry of Industry and Information Technology (工業和信息化部電信研究院規劃設計研究所)), and was also the vice-president of China Academy of Telecommunication Research of the Ministry of Information Industry (信息產業部) ("MII", currently known as the Ministry of Industry and Information Technology (工業和信息化部)), the inspector and the deputy director-general of the Department of Overall Planning of the MII. He has extensive experience in the telecommunications industry and is familiar with the optical telecommunications technology and broadband development. Mr. Qian joined the Group in 2012.

SENIOR MANAGEMENT

Mr. Chen Sui Yang (陳遂陽), aged 54, senior vice president of the Group. Mr. Chen is mainly responsible for the operational management of the procurement center, group logistics center, public products delivery center and the intelligent manufacturing business unit of the Group. Mr. Chen was in charge of the research and development and operational management of the Group's wireless enhancement products. He graduated from the Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學)) and obtained a bachelor's degree in antenna technology in 1985. He has also obtained an MBA degree in China Europe International Business School (CEIBS) (中歐國際工商學院). Mr. Chen has over 32 years of experience in technology research and operational management of wireless communications. He joined the Group in 1998.

Mr. Luo Rui Bo (駱瑞波), aged 43, vice president and general manager of the human resource center of the Group. Mr. Luo is responsible for the Group's human resource management. He graduated from Kunming University of Science and Technology (昆明理工大學) in 1998 and obtained a bachelor's degree in engineering, and obtained an MBA degree in Sun Yat-Sen University (中山大學) in 2009. Mr. Luo has over 20 years of experience in human resource management and operational management of large enterprises. He joined the Group in 2005.

Ms. Li Yu Wen (李宇雯), aged 47, vice president and controller of the treasury management center of the Group. Ms. Li is responsible for the business operation and management of the Group's process and IT management center, and the daily management of the Group's treasury management center. She graduated from the Yunnan University (雲南大學) in 1992 and obtained a bachelor's degree in physics. She also obtained an EMBA degree from Tsinghua University School of Economics and Management (清華大學經濟管理學院) in 2006. Ms. Li has over 25 years of experience in the markets of communication, operation and project management. Ms. Li served in the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

Mr. Chen Jian Bin (陳劍斌), aged 44, vice president and general manager of the global service business unit of the Group. Mr. Chen is responsible for the operation and management, business expansion, market operation, and platform construction of the Group's global service business. He graduated from Beijing University of Posts and Telecommunications (北京郵電大學) and obtained a bachelor's degree in engineering in 1996. Mr. Chen has nearly 22 years of experience in operation and management in the market of communications. He joined the Group in 1998.

Mr. Li Xue Feng (李學鋒), aged 45, vice president and general manager of the audit and legal center of the Group. Mr. Li is responsible for the management of the audit, legal affairs, risk management and control and intellectual property rights of the Group. He is an individual member of the Chinese Institute of Certified Public Accountants, a Certified Internal Auditor, a CPA, a FCPA (國際註冊法務會計師), and a CFA (國際舞弊審計師). He graduated from Northeast Forestry University (東北林業大學) majoring in accounting with a bachelor's degree in economics, and obtained a MBA degree from Royal Roads University, and obtained an EMBA degree from Lingnan College in Sun Yat-Sen University (中山大學嶺南學院). Mr. Li has over 21 years of experience in finance and internal audit from domestic and international companies. He joined the Group in 2010.

Mr. Du Feng (杜峰), aged 52, vice president and supervisor of the general office of the Group. He is a national wireless engineer, and was a cadre at deputy regiment commander level before demobilization with rank of lieutenant-colonel. Mr. Du is fully responsible for the daily management of the Group's general office. He completed his undergraduate studies at the Second Artillery Engineering University (第二炮兵工程學院) in 1997. Mr. Du has 18 years of experience in army administration and technical management, and 17 years of experience in market operation and branch office operational management in communications industries. He joined the Group in 2004.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Huo Xin Ru (霍欣茹), aged 33, president assistant of the Group. Ms. Huo is responsible for the relevant management work delegated by the Group. She graduated from Imperial College London (英國帝國理工學院) 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 (electronic engineering) digital signal processing, and obtained a master's degree. She has served successively such positions as software and application engineer, customer manager, and market manager in North America branch of Comba. She joined the Group in 2010.

Mr. Sun Shan Qiu (孫善球), aged 38, general manager of the antenna and subsystem business unit of the Group. He graduated from University of Electronic Science and Technology of China (電子科技大學) and obtained a bachelor's degree in electronic magnetic field and microwave technology in 2002 and obtained an EMBA degree from Beijing University of Posts and Telecommunications (北京郵電大學) in 2016. Mr. Sun has over 15 years of experience in the industry of base station antenna. In addition, he has a wide range of experience in the research and development, market and operation management. He was elected as the vice president of the Antenna System Industry Alliance in 2017. He joined the Group in 2002.

Mr. Luo Man Jiang (羅漫江), aged 39, general manager of the network products business unit of the Group. Mr. Luo is responsible for the management of the research and development of network products business unit and the market expanding of newly launched products of the Group. He graduated from Xidian University (西安電子科技大學) and obtained a master's degree in circuits and systems in 2004. Mr. Luo has a wide range of experience in the technical research, product development and management of wireless communications. He joined the Group in 2004.

Mr. Deng Shi Qun (鄧世群), aged 36, general manager of the network system business unit of the Group. Mr. Deng is responsible for the development and marketing management of the solutions for overseas markets of the Group. He graduated in 2007 from South China University of Technology (華南理工大學) and obtained a master's degree in circuits and systems. Mr. Deng has many years of technical research and development experience in the domain of wireless communications technology and computer networking technology. He joined the Group in 2005.

Mr. Yang Bo (楊波), aged 39, director of the research institute of the Group. Mr. Yang is responsible for the management of the research institute. He graduated from South China University of Technology (華南理工大學) in 1999 majoring in electronic engineering, and obtained a master's degree in engineering from the university in 2002. Mr. Yang has over 16 years of experience in technical management and operational management of corporate strategy of large communications enterprises. He joined the Group in 2005.

Ms. Qiu Cai Xia (邱彩霞), aged 39, general manager of the specialized network communications business unit and deputy general manager of the marketing center of the Group. Ms. Qiu is responsible for the market operation and management of the Group's specialized network business. She graduated from People's Public Security University of China (中國人民公安大學) in 2001 and obtained a bachelor's degree in law, and obtained an EMBA degree from Beijing University of Posts and Telecommunications (北京郵電大學) in 2014. Ms. Qiu has a wide range of experience in the technical marketing and business development. She joined the Group in 2001.

Mr. He Wang Long (何望龍), aged 35, deputy director of the accounting management center (PRC) of the Group. Mr. He is responsible for the daily management of the accounting management center of the Group in the PRC. He completed the undergraduate studies in Nanhua University (南華大學) in 2005, and obtained a bachelor's degree in management. Mr. He has 12 years of experience in accounting and financial management in communications industries. He joined the Group in 2006.

Mr. Zhang Jian Feng (張劍鋒), aged 42, deputy director of the financial sharing center (PRC) of the Group. Mr. Zhang is responsible for the daily management of the financial sharing center of the Group in the PRC. He completed the undergraduate studies in Central South University (中南大學) in 1999 and obtained a bachelor's degree in management. Mr. Zhang has 19 years of experience in accounting and financial management in communications industries. He joined the Group in 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Augustin Ping Chang (張平), aged 55, general manager of the Group's international branch in North America. Mr. Chang is responsible for the business development & R&D activities for high power amplifier in US & Canada. Prior to joining the Group, Mr. Chang was director of engineering at REMEC Inc. He also held various engineering management positions at Spectrian Inc. & Watkins-Johnson Company. Mr. Chang holds a master of science degree in electrical engineering from University of Illinois at Urbana-Champaign and a bachelor of science degree in electrical engineering from Carnegie – Mellon University. Mr. Chang has more than 31 years of experience in RF/microwave amplifier development, from ultra-broadband MMIC amplifier to high power linearized power amplifier for cellular base station. Mr. Chang has co-authored numerous papers in the fields of GaAs FET amplifiers, and holds a patent on high linearity multi-carrier RF amplifier. He joined the Group in 2005.

Mr. Johan Patrik Westfalk, aged 46, managing director of the Group's international branch in Caribbean & Latin America with headquarters in São Paulo, Brazil. Mr. Westfalk is responsible for all operations throughout the Latin American countries, including Brazil, Mexico as well as the Caribbean Islands. He holds a master of science degree in engineering physics from Chalmers University of Technology in Gothenburg, Sweden, specializing in electromagnetic fields and microwave antenna design and has also completed finance and accounting education at the Business School of São Paulo, Brazil. Mr. Westfalk has over 20 years of experience in the telecommunication industry and over 17 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Ms. Ma Jing (馬靜), aged 35, senior director of technical marketing solutions & general manager of enterprise business of the Group's international markets. Ms. Ma is responsible for overseeing the strategy and development of new solutions, business development of oversea Enterprise business as well as strategic technical marketing of total solutions and new solutions for the Group's oversea market. She graduated from Tsinghua University (清華大學) with a master degree in Information & Communications Engineering in 2007 and a bachelor's degree in Electrical Engineering & Automation in 2004. Ms. Ma has wide experience in product management, technical marketing and business development. She joined the Group in 2007.

Mr. Di Ying Jie (邸英傑), aged 56, chief technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the Group's research and product development works concerning microwave RF passive accessories. He graduated from Xidian University (西安電子科技大學), majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in the theory and design and research of microwave RF accessories for many years. Mr. Di also has wide experience in product development. He is now a senior member of IEEE. He joined the Group in 2004.

Ms. Carol Ka Ye (葉卡), aged 51, vice president of global business expansion and deputy general manager of ASBU. Ms. Ye is responsible for developing and expanding the global major accounts business and identifying new business models and new markets for the Group's international operations. She graduated from National University of Singapore with the master degree of Electronic Engineering, and specialized in Microwave and Antenna design. Ms. Ye has more than 20 years of wide arrange of working experiences in product management, business development and network planning in Telecommunication and Wireless industry. She joined the Group in 2005.

Mr. Chan Siu Man, Barry (陳少文), aged 49, deputy financial controller of treasury management (overseas) of the Group, also the company secretary of the Company. Mr. Chan is responsible for treasury management and company secretarial functions of Hong Kong and overseas companies. He graduated from Hong Kong Polytechnic University with a bachelor of arts (honours) in accountancy in 1991 and obtained a master degree in business administration from University of Southern Queensland in 2000. He is also a full member of The Hong Kong Institute of Certified Public Accountants since 1996 and a fellow member of The Association of Chartered Certified Accountants since 2000. He has over 20 years of experience in accounting, treasury and financial management in various organizations. He joined the Group in 2015.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Liang (王梁), aged 37, general manager of the ICT business unit of the Group. Mr. Wang is responsible for expansion of the Group's corporate/industrial ICT business, provision of integrated solutions and related products of ICT for customers, and establishment of corporate integrated competitiveness in this field. He completed the undergraduate studies in Central South University (中南大學) in 2005, majoring in information management and information system. Mr. Wang has 13 years of experience in the management of IT and related fields. He joined the Group in 2008.

Mr. Chen Liang (陳亮), aged 43, general manager of procurement center of the Group. Mr. Chen is responsible for the daily management of the Group's procurement center. He graduated from Shanghai University (上海大學) in 1998, majoring in communications and information engineering, and obtained an EMBA degree in Beijing University of Posts and Telecommunications (北京郵電大學) in 2014. Mr. Chen has 20 years of experience in the technical research, product development and corporate management in the wireless communications area. He joined the Group in 1998.

Mr. Xu Chuan Min (徐傳民), aged 39, director of the public products delivery center of the Group. Mr. Xu is responsible for the production management of the Group's wireless enhancement, wireless access and wireless transmission related products and the introduction of new products. He completed the higher diploma studies in Shandong University (山東大學) in 2002, completed the undergraduate studies in Shandong University in 2008, graduated from Huazhong University of Science and Technology (華中科技大學) with MBA in 2013 and obtained an MBA degree. Mr. Xu has 15 years of experience in the production, operation and management in communications industries. He joined the Group in 2002.

Ms. Ip Wai Ki Vicky (Victoria) (葉慧琪 (葉湴喬)), aged 39, deputy director of group human resources center & director of international human resources. Ms. Ip is responsible for overall human resources of the Group's headquarter in Hong Kong and in charge of all functions human resources management for Comba Telecom international organization. She is graduated from University of Leicester in England with a master degree with merit in business administration and Brock University in Canada with a bachelor degree of arts in economics. Ms. Ip is a certified strategic human resources business partner and has over 15 years extensive experience in human resources, administration and operations management particularly in organizational restructuring & development, HR transformation, HR Business Partnering, strategy & implementation, talent acquisition & management, as well as global HR and cultural receptive fine-tuned in all her regional roles across North America, Europe, Middle East and Asia Pacific. Ms. Ip was the Associate Director, Human Resources APAC & HK Office General Manager of Hanergy Holding Group & Hanergy Thin Film Power Limited before joining the Group. She joined the Group in 2016.

CORPORATE GOVERNANCE REPORT

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

The board (the "Board") of directors (the "Director(s)") of the Company reviewed daily governance of the Company from time to time in accordance with the code provisions (the "Code Provisions") as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered that, from 1 January 2017 to the date of this report, the Company has complied with all Code Provisions. The key corporate governance principles and practices of the Company are summarized as follows:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities transactions of the Company by its Directors. Specific enquiries have been made to all Directors, and they have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions from 1 January 2017 to the date of this report.

BOARD OF DIRECTORS

BOARD COMPOSITION

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

The composition of the Board represents a mixture of expertise specializing in management, wireless communications and telecommunications industry, accounts and finance, and research and development.

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

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

For the year ended 31 December 2017 (the "Current Year"), there were six Board meetings and an annual general meeting held by the Company and attendance of each Director at the Board meetings and the general meeting (either in person or by telephone conference) is set out as follows:

Name of Directors	Number of Board meetings attended/ Total number of Board meetings held	Number of general meeting attended/ Total number of general meeting held
Executive Directors:		
Mr. Fok Tung Ling *(Chairman)*	6/6	1/1
Mr. Zhang Yue Jun *(Vice Chairman and President)*	6/6	1/1
Mr. Zheng Guo Bao	5/6	1/1
Mr. Yeung Pui Sang, Simon	6/6	1/1
Mr. Zhang Yuan Jian	6/6	1/1
Independent non-executive Directors:		
Mr. Lau Siu Ki, Kevin	5/6	1/1
Dr. Lin Jin Tong	6/6	1/1
Mr. Qian Ting Shuo	6/6	1/1
Mr. Liu Cai[Note 1]	3/3	N/A

Note:

(1) Mr. Liu Cai resigned as independent non-executive Director with effect from 31 March 2017. During the period from 1 January 2017 to 31 March 2017, three Board meetings were convened and held.

BOARD FUNCTIONS

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

The Board is also responsible for performing the corporate governance duties as set out in Code Provision D.3.1. During the Current Year, Board meetings held to, inter alia, review the Company's policies and practices on corporate governance; review and monitor the training and continuous professional development of Directors and senior management of the Group; review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and review and monitor the compliance with the Code Provisions and approve the disclosure in the corporate governance report contained in the Company's 2016 annual report.

MANAGEMENT FUNCTIONS

In general, specific tasks that the Board delegates to the Group's management include the preparation of annual and interim consolidated financial statements for the Board's approval before public reporting; the implementation of strategies approved by the Board; the monitoring of operating budgets; the implementation of risk management and internal control procedures; and ensuring compliance with relevant statutory requirements and other rules and regulations.

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

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

Mr. Chang Fei Fu, an executive Director appointed on 23 February 2018, has received a comprehensive, formal and tailored induction on appointment to ensure that he has a proper understanding of the operations and business of the Company and is fully aware of his responsibilities in the Company.

COMPANY SECRETARY

Mr. Chan Siu Man, the company secretary of the Company (the "Company Secretary"), has undertaken not less than 15 hours of relevant professional training during the Current Year in compliance with rule 3.29 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

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

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

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

CORPORATE GOVERNANCE REPORT

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

Remuneration bands (HK$)	Number of person(s)
Nil to 1,000,000	6
1,000,001 to 2,000,000	10
2,000,001 to 3,000,000	6
3,000,001 to 4,000,000	3
Over 4,000,000	2

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

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

Note:

(1) Mr. Liu Cai resigned as member of the Remuneration Committee with effect from 31 March 2017. During the period from 1 January 2017 to 31 March 2017, a Remuneration Committee meeting was convened and held.

NOMINATION COMMITTEE

Nomination committee of the Company (the "Nomination Committee") comprises three independent non-executive Directors, being Dr. Lin Jin Tong, Mr. Lau Siu Ki, Kevin and Mr. Qian Ting Shuo. The chairman of the Nomination Committee is Dr. Lin Jin Tong (appointed with effect from 31 March 2017). The terms of reference of the Nomination Committee are available on the respective websites of the Stock Exchange and the Company.

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

During the Current Year, there was a Nomination Committee meeting held to, inter alia, discuss the appointment of executive Director and change of authorised representative of the Company and recommend to the Board; discuss the resignation of independent non-executive Director and change of the composition of the Board committees; review the structure, size and composition of the Board; assess the independence of the independent non-executive Directors and review the implementation and effectiveness of the board diversity policy.

ASSESSMENT OF INDEPENDENCE

The Company received annual written confirmations of independence, having regard to the independence guidelines under rule 3.13 of the Listing Rules, from each independent non-executive Director. Consideration was given to the independence of Mr. Lau Siu Ki, Kevin, who has been serving on the Board for more than nine years. After review and assessment, the Nomination Committee affirmed that all of the independent non-executive Directors continued to demonstrate strong independence in judgement and were free from any business or other relationships which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.

SUMMARY OF BOARD DIVERSITY POLICY

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

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

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

Note:

(1) Mr. Liu Cai resigned as the chairman and member of the Nomination Committee with effect from 31 March 2017. During the period from 1 January 2017 to 31 March 2017, a Nomination Committee meeting was convened and held.

AUDIT COMMITTEE

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

The main duties and responsibilities of the Audit Committee are to review the completeness, accuracy and fairness of the Group's consolidated financial statements, the Group's financial reporting system, risk management and internal control systems, the scope and nature of the external audit and matters concerning the engagement of external auditor.

During the Current Year, there were two Audit Committee meetings held to, inter alia, review the Group's consolidated financial statements such as interim results and annual results, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, risk management and internal control systems, the effectiveness of risk management and internal audit function and related issues.

CORPORATE GOVERNANCE REPORT

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

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

Note:

(1) Mr. Liu Cai resigned as member of the Audit Committee with effect from 31 March 2017. During the period from 1 January 2017 to 31 March 2017, an Audit Committee meeting was convened and held.

AUDITOR'S REMUNERATION

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

During the Current Year, the fees paid to the auditor for audit services amounted to HK$3,646,000; and non-audit services of tax review and other professional services amounted to HK$127,000 and HK$2,001,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

A statement from the auditor of the Group regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the section "Independent Auditor's Report" on pages 63 to 67 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

During the Current Year, the Group enhanced the risk management procedures and initiated the development of a comprehensive risk management system whilst performing systematic risk assessment and analysis on all business areas in order to achieve full integration of risk management awareness and daily business decisions, in addition to a change of mechanism to better adapt to the new environment and constantly improve the Group's capability in risk prevention and opportunity identification.

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

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

The internal audit department monitors the procedures and systems of the Group's risk management and internal control, and reports its findings and recommendations to management and the Audit Committee. It carried out audit in areas identified as of high or medium significance during the Current Year. These areas included sales and receivables, and inventories and costing. Recommendations were made to the relevant business functions and improvements have been made.

The Audit Committee reviewed the reports submitted by the risk management and internal audit departments and reported semi-annually to the Board on such reviews. For the Current Year, the Board reviewed the effectiveness of the risk management and internal control systems within the Group and is satisfied that the risk management and internal control systems within the Group are effective and adequate.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

PROCEDURES BY WHICH SHAREHOLDERS MAY CONVENE AN EXTRAORDINARY GENERAL MEETING

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

PROCEDURES FOR PUTTING FORWARD ENQUIRIES TO THE BOARD

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

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

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT A GENERAL MEETING

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

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

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

CHANGE IN THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY

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

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

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

During the Current Year, the Group's senior management attended over 110 investor meetings, including participation in 16 investor conferences and 30 post-results road shows, and 20 plant visits were arranged. This provided the investment community with an opportunity to understand the business of the Group better. As a result of various investor relations activities undertaken, as at the end of the Current Year, 3 securities companies provided research coverage on the Group.

Key Investor Relations Events in 2017:

Date		Event
January	:	2017 Pulse of Asia Conference (Organized by DBS Vickers Securities)
March	:	2016 Annual Results Announcement (Press Conference and Investor Presentation) and Post-results road shows in Hong Kong (arranged by various brokerage firms)
April	:	Post-results road shows in Hong Kong and Mainland China
	:	Plant Visits for investors, fund managers and analysts (arranged by Tianfeng Securities and China Merchants Securities)
May	:	2017 Annual General Meeting
	:	Plant Visits for investors, fund managers and analysts (arranged by Huachuang Securities and Kim Eng Securities (HK) Ltd)
June	:	Bejing CIC Forum 2017 B & R and Cross-Border Investment CEO Summit(arranged by China Securities)
	:	Interim Investment Strategy Conferences (arranged by Tianfeng Securities, China Merchants Securities)
	:	Non-deal road shows in Shanghai (arranged by Tianfeng Securities and Industrial Securities)
July	:	Plant Visits for investors, fund managers and analysts (arranged by Guotai Junan Securities and Essence International)
August	:	2017 Interim Results Announcement (Press Conference and Investor Presentation) and Post-results road-shows in Hong Kong (arranged by various brokerage firms)
September	:	Autumn Investment Strategy Conferences (arranged by Haitong Securities, Tianfeng Securities and Huachuang Securities)
	:	Plant Visits for investors, fund managers and analysts (arranged by Sinopac Securities and Japan Keika Sogyo Ltd.)
October	:	Group Meetings for investors, fund managers and analysts (arranged by BOC International, Macquarie, Essence International and First Shanghai Securities)
	:	Plant Visits for investors, fund managers and analysts (arranged by Guosen Securities, First Shanghai Securities and etc.)
November	:	Plant Visits for investors, fund managers and analysts (arranged by GF Securities and Shenwan Hongyuan Securities)
	:	Non-deal road shows in Beijing (arranged by Huachuang Securities) and in Shanghai (arranged by BOC International)
December	:	2018 Annual Investment Strategy Conferences (arranged by Huachuang Securities, China Merchants Securities, Citic Securities and Tianfeng Securities)
	:	Group Meeting for investors, fund managers and analysts (arranged by Huatai Financial Holdings)

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. SUMMARY AND SCOPE OF REPORT

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

Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recognize "Connecting the World to Promote the Progress of Human Civilization" as corporate vision and "Achieving Innovation and Development in the Information Communications Technology Areas to Provide Customers with Excellent Communications and Information Solutions and Services" as corporate mission. Considering its customers, employees, shareholders and the government as the basic elements to achieve business core values, the Group is devoted to creating ideal values for customers, co-developing high level of life quality as well as leading the way and giving back to society. The Group adheres to the long-held core culture of "Pursuing Perfection and Harmony" and are committed to integrating sustainable development and social responsibility into its corporate culture. It is encouraging that its efforts are well recognized. From the beginning of 2016, the Group became a constituent of the Hang Seng Corporate Sustainability Benchmark Index.

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

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

II. COMMUNICATIONS WITH STAKEHOLDERS AND IMPORTANCE ASSESSMENT

The Group attaches great importance to communication with all parties of the stakeholders by learning their varying expectations of the Group's environmental, social, governance and other aspects through a variety of different channels, as well as by representing in this report its efforts put in issues that are of concern to stakeholders, in a bid to enhance the Group's transparency and stakeholders' confidence in its promotion of sustainable development.

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

III. ENVIRONMENTAL PROTECTION AND RESOURCE UTILIZATION

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

(I) EMISSIONS

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

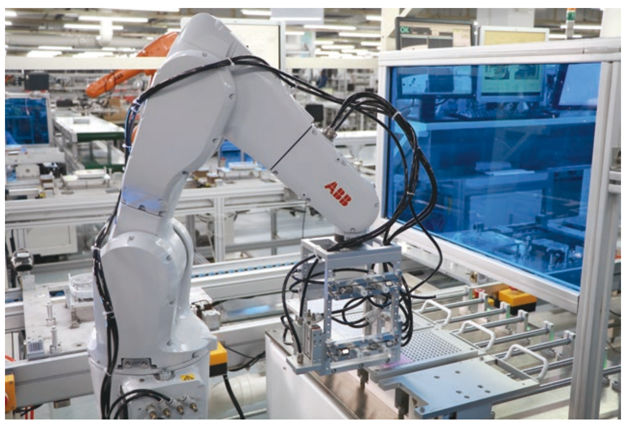
During production process of the Group, there is no emission of industrial exhaust gas, except for little air contaminant discharged by its administrative cars and standby generating sets. All the toxic waste generated by the Group, comprising batteries, bulbs, coolant oil, etc., will be conducted professional recovery and processing by qualified waste recovery and processing companies; while non-hazardous waste, which mainly includes domestic waste generating from daily office works and canteen of the Company and building debris of construction in progress, is conducted waste disposal by outsourcing service companies. Indirect emissions from external production of electricity and employees' business trips are the major source of the Group's greenhouse gas emission. In 2017, the equivalent amount of carbon dioxide (CO_2) emission for sales income per ten thousand was 0.044 tonnes. The emission density of greenhouse gas saw a decline as compared with that of 2016. In 2017, the Group, by optimizing solutions for using administrative cars, standardizing management system of business trip at home and abroad, consolidating frequency and route of the Company's shuttle buses, carrying out regular supervision over and assessment of the service quality of the outsourcing service companies as well as enhancing the degree of informationization of its documents in order to reduce paper consumption while printing, has been able to effectively control emission.

Emissions		Unit	2017	2016	Comparison
Air contaminant	NOx	tonne	0.530	0.529	0.19%↑
	SOx	tonne	0.005	0.012	58.33%↓
	PM	tonne	0.032	0.033	3.03%↓
Waste	Household wastewater	tonne	122,293	120,362	1.60%↑
	Non-hazardous wastes	tonne	307	262	17.18%↑
	Hazardous wastes	tonne	8	2	300%↑
Greenhouse gas emission		tonne of equivalent amount of CO_2	24,327	29,792	18.35%↓
Annual sales revenue in total		ten thousand HK$	556,373	595,433	6.56%↓
Emission density of greenhouse gas		tonne/ten thousand HK$	0.044	0.050	12.00%↓

(II) RESOURCE UTILIZATION

The Group takes a careful consideration of environment factors throughout the life cycle of its products and services, to provide its products with the characteristics of energy and natural resource saving and non-pollution in each procedure of research and development, production, sale, transportation, utilization and abandonment, promotes such requirements to its upstream suppliers and signs relevant agreements with them in respect of environmental protection, social responsibility and utilization of conflict minerals and demands that its suppliers manage relevant procedures in their own companies in accordance with the Group's standard of conducts, effectively manages the water consumption and waste water treatment of the company to reduce environment pollution, and actively promotes the concept of water conservation to save water resources, reduce the utilization of hazardous and noxious 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, the Group promotes active application of energy-efficient products, equipment and techniques to reduce energy consumption.

During the year, the manufacturing base in Guangzhou Development Zone has experienced large-scale development and debugging of intelligent manufacturing equipment and an increase of production equipment with automated flow processes, resulting in an increase of electricity consumption. In the manufacturing base, the Group replaced old water pipes and dynamically tracked the change of water pressure and consumption in the water consuming positions to effectively avoid waste of water resources resulting from leakage. In addition, in the headquarters and R&D base in Guangzhou Science City, the Group replaced bottled water with filtered drinking water to improve the utilization of water resources.



	2017			2016		
Type of energy	Total amount	Unit	Density Unit/ten thousand HK$	Total amount	Unit	Density Unit/ten thousand HK$
Electricity	24,055,904	kWh	43.24	21,940,834	kWh	36.85
Municipal water	173,304	cubic meter	0.31	231,678	cubic meter	0.39
Liquefied petroleum gas	2	tonne	0.0004%	5	tonne	0.0008%

Type	Unit	Consumption in 2017	Consumption in 2016	Comparison
Paper boxes and paperboards	tonne	2,571	2,606	1.34%↓
Wooden boxes	tonne	452	464	2.59%↓
Packing accessories	tonne	722	733	1.50%↓
Straps	tonne	167	174	4.02%↓
Other packing materials	tonne	441	445	0.90%↓
Total packing materials	tonne	4,353	4,422	1.56%↓
Consumption of packing materials per ten thousand HK$ sales revenue	tonne/ten thousand HK$	0.0078	0.0075	4.00%↑

(III) ENVIRONMENT AND NATURAL RESOURCES

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

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

The Group has reduced its negative impact on the environment and natural resources by pursuing high-quality products as well as reducing repair rate of products and reported damage rate of machines. The Group has implemented flexible layout and upgraded its intelligent manufacturing equipment in its production workshops during the reporting period. All pieces of equipment have been connected to optimize the intelligent deployment in the life circle of products so as to improve operation efficiency of products, reduce the repair rate in the market, and increase the useful life of machines.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IV. EMPLOYMENT AND LABOUR PRACTICES

(I) EMPLOYMENT

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

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

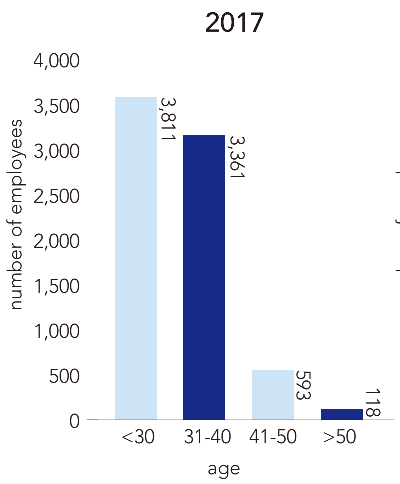
As at 31 December 2017, the Group had approximately 7,900 staff. The Group is committed to ensuring equal employment opportunities and protecting the rights of female employees. For employment policy, the Group eliminates gender discrimination and provide female employees with maternity leave according to local laws. Its employees are located primarily in the PRC with certain located in the other districts such as Europe and Southeast Asia.

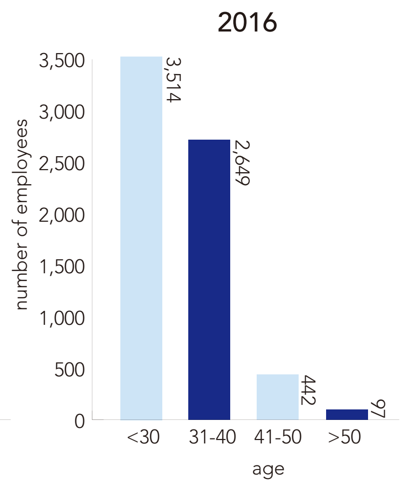
The Group continues to optimize its investment for its employees. In 2017, the Group set up more baby care rooms available for lactating female employees, established Comba I love stations and engaged professional career psychologists to provide all employees and their family members with free psychological consulting services. In addition, the Group optimized the deployment of its staff and put forward the exploration of the incentive mechanism for new business cultivation and the mid-and-long-term incentive mechanism. Furthermore, the Group adjusted the remuneration and benefit proposal for its long-term overseas expatriate staff to enhance its competitive level of remuneration.

During the reporting period, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to employment.

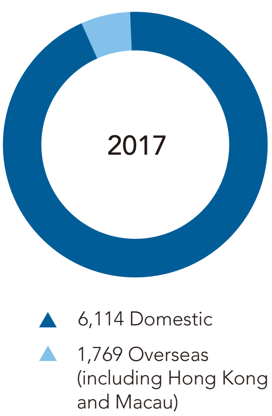
Total number of employees

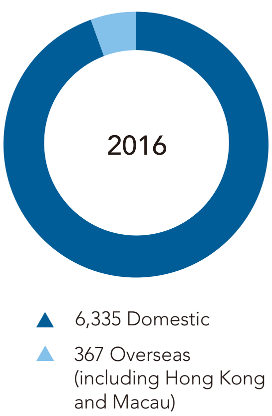
By age



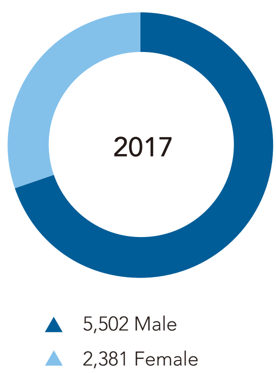


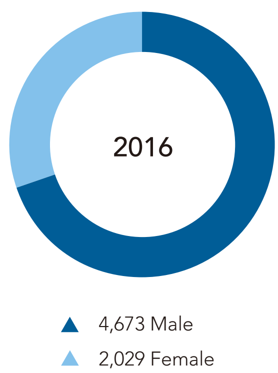
By region



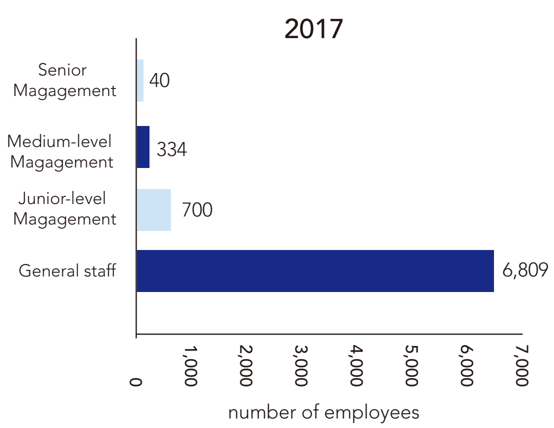


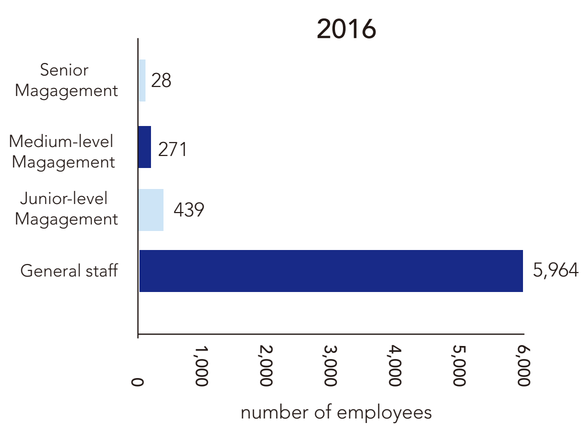
By gender





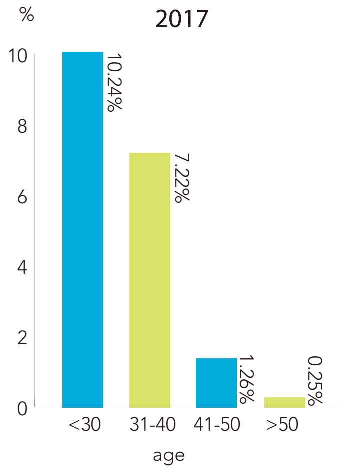
By position

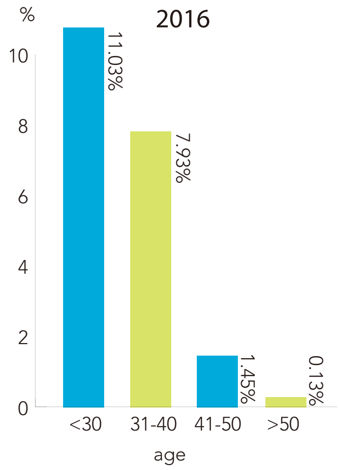




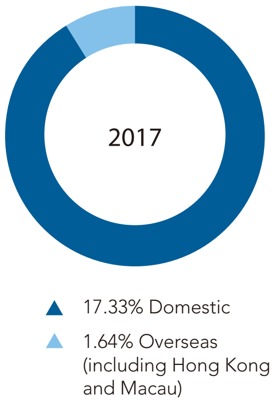
Turnover rate of emploeyees

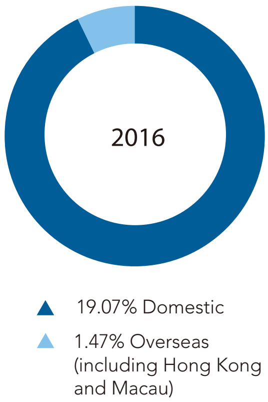
By age



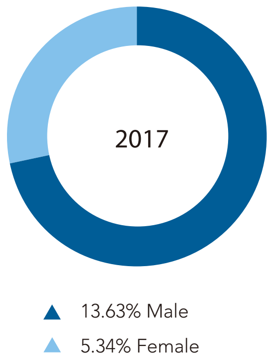


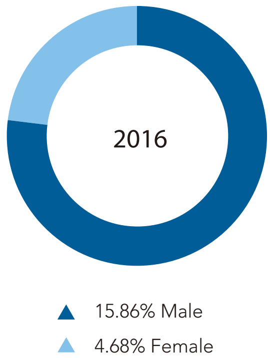
By region





By gender





(II) HEALTH AND SAFETY

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

There were no employees died because of their work in the Group in 2017 and the lost days caused by work-related injury were 286 days, representing a decrease of 93 days as compared with 2016.

During the reporting period, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to health and safety.

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

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

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

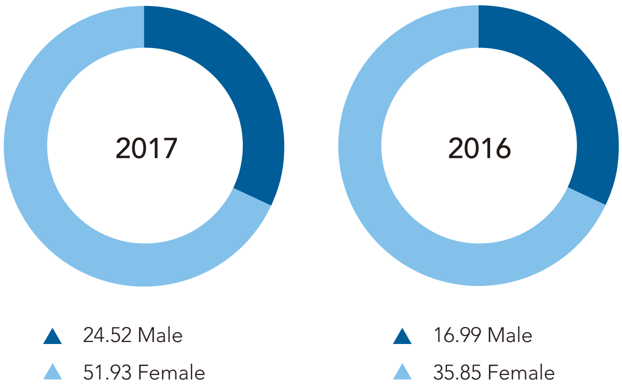
3. Carrying out activities such as drills and inspections: A safety manual for production operation is formulated for staff compliance. The Group carries out fire drills every year to further enhance its employees' emergency response capability. Also, a fire emergency team, which is responsible for urgent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

(III) DEVELOPMENT AND TRAINING

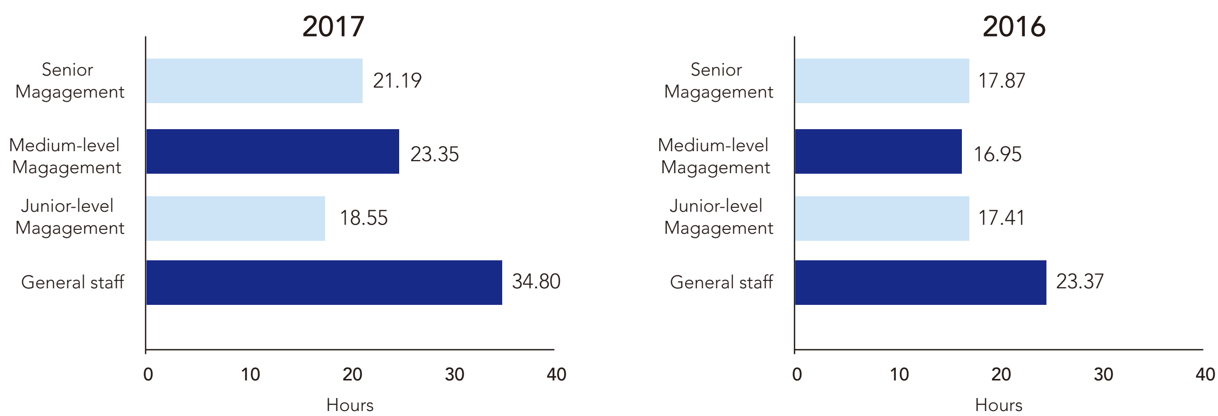
The Group is committed to the career development of its employees and offer dual promotion paths for them, namely "promotion for management functions" and "promotion for technical expertise". The Group implements a system that links its employees' remuneration and promotion to their work experience, capabilities and performance, which incentivizes their proactivity. All employees of the Group must accept training every year and the percentage of its employees trained is 100%.

Average hours of each employee completing its training

By gender



By position



The Group has been focusing on the cultivation of talents. On such basis, the Group advocates the talent concept of "promote the outstanding among flourishing talents" and establish an effective and systematic talent training system, which is designed to enhance its employees' knowledge, capability and skills. In view of the Group's demand for talents arising from its development goals, the Group ensures effective implementation of training from the five aspects of training regulation system, training program system, training instructor system, training material system and training operation system.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

   The College of Comba Leader Management (京信幹部管理學院) which was established in 2016 has initiated its systematic cultivation of management. It focuses on the combination of training and practice to comprehensively enhance the leaders' management capability through mechanisms including in-class training, action learning and instructor coaching. The College of Comba Leader Management continued to deepen its development in 2017, forming its learning, growth and development system for leaders based on qualification of appointment of leaders, its instructor team based on senior–, medium–, and junior-level management and external practice instructors, its system for assessing effectiveness of training and cultivation based on a four-level assessment model, and its appointment accreditation system based on four aspects including occupational ethics and basic conditions, necessary knowledge, performance of responsibility, and capability.

4. **Construction of the Internal Lecturers Team**
   The Group regularly organizes skills upgrading trainings and certification works for its internal lecturers in order to build up the team of internal lecturers, improve their teaching skills, broaden their horizons and promote the accumulation and inheritance of its enterprise culture. In addition, the Group invites industry experts to provide its internal lecturers with full set guidance on curriculum development, teaching and presentation. Furthermore, the Group builds its branded lecturer team and deliver a series of excellent courses through after-class practices and getting certification and approval of internal lecturers.

5. **Comba Colorful Classes**

The Group specially sets up the "Comba Colorful Classes (京彩課堂)", an online and offline learning platform, for all its staff, to create an active and strong atmosphere of trainings and satisfy their diversified demands for training. The "Comba Colorful Classes" are featured as its internal lecturers' branded courses, combined with the introduction of external general courses. Also, it integrates training into life and pays close attention to its employees' concerns. During the year, the Group launched the "Durian Classes", a learning platform focusing on financial expertise, which not only enhances its financial employees' professional level but also offers financial knowledge to all the staff of the Company.

(IV) LABOUR STANDARDS

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

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

The Group respects and protects its employees' right of freedom, including freedom to be employed, freedom to resign, freedom to work overtime and freedom of action, the Group also respects and protects their rights to freedom of association and collective bargaining.

V. OPERATION MANAGEMENT

(I) SUPPLY CHAIN MANAGEMENT

The Group has regulated the management of key processes of supply chain such as the placing of purchase order, the entering of contracts, product acceptance and the settlement by formulating proven purchase management system and establishing supplier acceptance, performance appraisal and exit mechanisms. During the year, the number of the suppliers has increased significantly as compared with that of the last year. The increase was mainly due to the introduction of a batch of new suppliers as the Group expanded the new businesses whose demands for material supplies were obviously different from the reserves of its existing suppliers.

Locations of suppliers	2017	2016	Comparison
First-tier cities in the PRC	247	180	37%↑
Other cities in the PRC	248	181	37%↑
Overseas (including Hong Kong and Macau)	451	415	9%↑
Total	946	776	22%↑

The Group implements comprehensive certification of its suppliers newly introduced, which includes certification of sustainable development system. The Group regards sustainable development as one of the basic conditions and requirements in introducing suppliers, so as to assess suppliers' capability and level to comply with laws and regulations and sustainable development agreements. Suppliers are required to carry out business based on the fact that they have complied with applicable laws and regulations and met the requirements under sustainable development. The Group has entered into Agreement of Corporate Social Responsibility (《企業社會責任協定》) with material suppliers to constraint their code of conduct on integrity and law abiding, human rights, labour standards, health and safety, environment, prohibited commercial transactions, which is a necessity to carry out supplier certification, audit and performance assessment. During the year, more than 400 suppliers have signed the agreement.

The results of supplier performance assessment are utilized to supplier management to promote their sustained improvement. Suppliers are carried out annual comprehensive assessment based on various factors such as their amount of business, daily assessment, quality performance, RoHS risk, environment, safety, etc.. Over 70 suppliers have been selected to carry out on-site audit in 2017. Supplier with excellent performance is entitled to increased purchase percentage on the same conditions and provided with priority of business cooperation. Supplier with poor grade in performance assessment is provided with respective training and coaching, so as to drive supplier to regard corporate social responsibility as a requirement of product during production, and integrate it into business decision making and daily operation, thus establishing effective management system.

The Group attaches great importance to the issue of conflict minerals and publicly states that it will not purchase and support to use conflict minerals. All its suppliers are required not to purchase conflict minerals and their sub-suppliers are also so required. The Group identifies the material lists and supplier lists relating to conflict minerals in accordance with OECD Guidelines for Due Diligence of Conflict Minerals (《OECD衝突礦物盡職調查指南》) and adopts conflict mineral questionnaire (CMRT Form) of Global Conflict Free Sourcing Initiative (全球無衝突採購倡議) (CFSI) to carry out due diligence and analysis on more than 90 suppliers.

(II) PRODUCT RESPONSIBILITY

By adhering to its corporate value and core culture, persistently seeking higher working quality and constantly promoting changes and innovation, the Group is committed to building its brand reputation featured with "excellent" and "value-for-money" products.

The Group has established an ISO9000 international quality management system and a TL9000 quality management system in telecommunication industry that have gained international accreditation, as well as an automatic product testing and reliability measurement system to secure its product quality and provide the customers with safe and reliable products and services. The Group has established a specialty team of quality improvement in its delivery center in 2017 to solve key quality issues from its customers' feedbacks and its production.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has established a proven after-sale service system, continued upgrading the CRM customer relations management platform and established multi-dimension customer communication, complaint and feedback channels based on its WeChat public account, the 400 hotline, its website, and customer satisfaction survey. All the complaints and feedbacks will be handled by classification and grading in accordance with process specifications to ensure customer satisfaction. During the reporting period, there was no circumstance of recovery of its products incurred due to the safety and health and 2 customer complaints have been received by its handling team for customer complaints. For such complaints, the Group has rapidly carried out cause investigation and analysis and formed a cross-department specialty team to improve and continuously track such issues.

The Group has implemented the procedures to manage intellectual property rights, patents, trademarks, advertisements and publicity, in order that such relevant risks are reduced and intellectual property rights of others are respected. At the same time, the Group has set up a confidentiality management policy for strict protection of business secret of the company and customers. During the year, the Group has revised and upgraded the Comba VI Manual and issued many regulations such as VI Standards on Management and Utilization, Group Management Measures on External News and Publicity, and Management Measures on Wechat Public Account, to strengthen its management of corporate brand image and sensitive information.

The Group has always insisted on independent innovation and attached great importance to possession of core technologies and self-developed intelligent property rights. The Group has taken “combination of attack and defense, innovation, appropriate layout and creation of values” as its development strategy of intelligent property rights and stipulated several systems such as Management Measures on Intelligent Property Rights, Standards of Patent Management, and Management Regulations of Business Secrets, to regulate the utilization and protection of intelligent property rights.

The Group has applied for patents since 2002. The application for patents has increased on an annual basis. As of the end of 2017, the Group has applied for over 2,900 patents in total at home and abroad and been granted over 1,700 patents, of which more than 1,600 patents have been applied for with respect of invention and more than 700 patents have been granted. The Group has received sufficient recognition from outside with respect of its achievement of intelligent property rights. The Group has been selected as the key enterprise of protection of intelligent property rights of Guangdong in 2017 and won several awards such as Golden prize of Patents in Guangzhou, the first prize of Guangdong Science and Technology Award, and the first prize of Guangzhou Science and Technology Award in 2016.

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

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

During the reporting period, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to product responsibility.

(III) ANTI-CORRUPTION

In strict compliance with national laws and regulations and the Group's internal policies, the Group requires its employees abstaining from such misconducts as offering or accepting bribery, corruption, blackmail, fraud and money laundering in any circumstance. Any suspected criminal offence will be promptly whistle-blew and reported to judicial authorities, and the Group will actively cooperate with the judicial authorities for investigation. During the reporting period, the Group did not have any concluded corruption litigations against the Company or its employees.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VI. COMMUNITY INVESTMENT

Whilst accelerating its own development in a healthy and rapid manner, the Group is devoted to supporting social charity and proactively fulfills its social responsibilities and obligations. It has devoted many resources to public benefits activities, disaster relief, poverty alleviation, donations for school, staff care, the conveyance of condolence to the injured and disabled and other aspects. In 2017, the Group made a total donation of HK$841,000 in social charity, poverty alleviation, the provision of financial assistance to poor students, social activities, etc.

Year 2017 marks the 20th anniversary of the Group since its establishment. The Group carried out a series of corporate culture activities for the "20th anniversary of the establishment of Comba", and organized a variety of knowledge contests, sports events, community care activities, recreational activities, painting and calligraphy competitions, photo collection and other activities, thus contributing to the development of cultural and sports activities of the Group and the community.

Leveraging on its technical expertise, the Group has actively participated in emergency communications relief in major disasters and resumed communications in a timely manner to support rescue and relief efforts. During the year, the Group joined in the emergency communications relief in the typhoon "Hato (天鴿)" in Macau, the rescue and relief in the forest fire in Portugal and the emergency communications relief in the flood in Changsha, Hunan.

The Group actively provides support for holding international conferences and forums. During the year, the Group provided communication supports for the Fortune Global Forum, the BRICS Summit and the Davos Forum. Meanwhile, overseas and domestic branches in the Group are committed to providing telecom system solutions for dozens of countries around the world, including the longest highway wireless network coverage project in Brazil, the metro extension wireless network coverage project in Bangkok, Thailand and the national wireless network enhancement project in Australia, to solve weak networks coverage, delayed networks connections and other issues, so as to provide customers with excellent network experience service.

With continuous commitment to innovation and development provide customers with excellent communications and information solutions and services, the Group was well recognized by winning a number of awards, including the Small-Cell Innovation of the Year Award 2017, a Niche Player In A Magic Quadrant For Small Cell Equipment 2017, the TESSCO One 2017 Innovation Award, the Top Ten Application Innovation Award for China Smart City Internet-of-things 2017, Outstanding Achievement Award for China Information and Communication and Internet + Application 2017.

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2018

REPORT OF THE DIRECTORS

The directors (the "Director(s)") of Comba Telecom Systems Holdings Limited (the "Company") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 (the "Current Year").

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Business review of the Group for the Current Year and a discussion on the Group's future business development and the principal risks and uncertainties facing the Group are set out in the Management Discussion and Analysis on pages 11 to 20 of this annual report. An analysis of the Group's performance during the Current Year using financial key performance indicators is set out in the 5 Year Financial Summary on page 156 of this annual report.

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

The Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group. The Company is subject to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Codes on Takeovers and Mergers and Share Buy-backs, the Cayman Islands Companies Law, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") and/or the rules and regulations of the jurisdictions where the shares of the Company are listed and traded. The Environmental, Social and Governance Report in this annual report also contains brief description of relevant laws and regulations that have significant impact on the operations of the Group.

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

OPERATING SEGMENT INFORMATION

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

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2017 and the state of affairs of the Company and the Group as at 31 December 2017 are set out in the consolidated financial statements on pages 68 to 155 of this annual report.

In view of the Group's operating results for the Current Year and taking into consideration of its long-term future development and its flexibility of financial position, the Directors do not recommend to declare and pay a final dividend (2016: HK0.8 cents per ordinary share) in respect of the Current Year to the shareholders of the Company.

5 YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 156 of this annual report. This summary does not form part of the audited consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the Current Year amounted to HK$841,000.

REPORT OF THE DIRECTORS

SHARE CAPITAL, SHARE OPTIONS AND AWARDED SHARES

Details of movements in the Company's share capital, share options and awarded shares during the Current Year are set out in notes 29 and 30 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$372,231,000. In addition, the Company's share premium account, in the amount of HK$664,031,000, may be distributed, provided that immediately following the date on which the distribution or dividends proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the Current Year, sales to the Group's five largest customers accounted for approximately 73.2% of the total sales for the year and sales to the largest customer included therein accounted for approximately 29.9% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

As at 31 December 2017, none of the Directors or any of their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers.

DIRECTORS

The Directors during the Current Year and up to the date of this report were as follows:

EXECUTIVE DIRECTORS:

Mr. Fok Tung Ling ("Mr. Fok") *(Chairman)*
Mr. Zhang Yue Jun *(Vice Chairman and President)*
Mr. Chang Fei Fu (appointed on 23 February 2018)
Mr. Zheng Guo Bao ("Mr. Zheng")
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")
Mr. Zhang Yuan Jian

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Lau Siu Ki, Kevin ("Mr. Lau")
Dr. Lin Jin Tong ("Dr. Lin")
Mr. Qian Ting Shuo ("Mr. Qian")
Mr. Liu Cai (resigned on 31 March 2017)

In accordance with article 86(3) of the Articles, Mr. Chang Fei Fu will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company (the "AGM"). In accordance with articles 87(1) and 87(2) of the Articles, Mr. Yeung, Mr. Lau, Dr. Lin and Mr. Qian will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

The Company has received annual confirmation of independence from each of Mr. Lau, Dr. Lin and Mr. Qian for the Current Year and considers them to be independent as each of them fulfils the requirements as set out in rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 30 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Fok and Mr. Zhang Yue Jun has entered into a service contract with the Company for an initial term of three years which commenced on 1 July 2003, and will be renewable thereafter until terminated by either party by giving not less than six months' written notice. As these contracts were entered into on or before 31 January 2004, they are exempt from the shareholders' approval requirement under rule 13.68 of the Listing Rules.

Mr. Zhang Yuan Jian has entered into a service contract with the Company for an initial term of three years which commenced on 10 February 2012 and will be renewable thereafter until terminated by not less than six months' notice in writing served by either party on the other. Each of Mr. Chang Fei Fu, Mr. Zheng and Mr. Yeung has entered into a service contract with the Company for an initial term of 18 months which commenced on 23 February 2018, 30 March 2008 and 7 April 2005, respectively and will be renewable thereafter until terminated by not less than six months' notice in writing served by either party on the other.

Apart from the foregoing, no Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION POLICIES

Details of the remuneration policies are set out in the section "Employees and Remuneration Policies" on page 20 of this annual report.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the Loan Agreement, the WTAP Agreement and the WTAP-Components Agreement in which Mr. Zheng has interest (as disclosed in the section "Connected Transactions" below), no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, was a party, and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest				
Name of Directors	Notes	**Directly beneficially owned**	**Through spouse**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital (Approximately)**
Mr. Fok	(a)	27,794,537	–	782,164,931	809,959,468	32.79
Mr. Zhang Yue Jun	(b)	–	–	248,225,410	248,225,410	10.05
Mr. Zheng		5,471,184	–	–	5,471,184	0.22
Mr. Yeung		14,863,253	–	–	14,863,253	0.60
Mr. Zhang Yuan Jian		1,652,182	840	–	1,653,022	0.06

Long positions in share options of the Company:

Name of Directors	**Number of share options directly beneficially owned**
Mr. Fok	805,253
Mr. Zhang Yue Jun	805,253
Mr. Yeung	5,715,762
Mr. Zhang Yuan Jian	5,715,762
Mr. Lau	271,049
Dr. Lin	271,049
Mr. Qian	271,049

Notes:

(a) 780,095,129 shares and 2,069,802 shares are beneficially owned by Prime Choice Investments Limited and Total Master Investments Limited, respectively. By virtue of 100% shareholding in each of Prime Choice Investments Limited and Total Master Investments Limited, Mr. Fok is deemed or taken to be interested in the total of 782,164,931 shares owned by Prime Choice Investments Limited and Total Master Investments Limited under the SFO.

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

Save as aforesaid and save for Mr. Zheng beneficially holding 32% equity interest in WaveLab Holdings Limited ("WaveLab Holdings"), an indirect non wholly-owned subsidiary of the Company, as at 31 December 2017, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive of the Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

Details of the share option scheme and share award scheme of the Company are set out in note 30 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme and share award scheme in note 30 to the consolidated financial statements, at no time during the Current Year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any Director, the chief executive of the Company or their respective spouses or children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PENSION SCHEMES

Details of the pension schemes of the Group are set out in notes 2.4 and 6 to the consolidated financial statements, respectively under "Other Employee Benefits" on page 103 and "Employee benefit expense" on page 111 of this annual report, respectively.

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

As at 31 December 2017, the following substantial shareholders of the Company (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange as follows:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares and share options held	Percentage of the Company's issued share capital (Approximately)
Prime Choice Investments Limited		Beneficial owner	780,095,129	31.58
Madam Chen Jing Na	(a)	Interest of spouse	810,764,721	32.83
Wise Logic Investments Limited		Beneficial owner	248,225,410	10.05
Madam Cai Hui Ni	(b)	Interest of spouse	249,030,663	10.08

REPORT OF THE DIRECTORS

Notes:

(a) Madam Chen Jing Na is the spouse of Mr. Fok and is deemed to be interested in 809,959,468 shares and 805,253 share options in which Mr. Fok is interested or deemed to be interested for the purpose of the SFO.

(b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in 248,225,410 shares and 805,253 share options in which Mr. Zhang Yue Jun is interested or deemed to be interested for the purpose of the SFO.

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

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

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

Save as disclosed above, as at 31 December 2017, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into during the Current Year are set out in note 37 to the consolidated financial statements. These related party transactions in respect of compensation of key management personnel of the Group constituted connected transactions as defined in Chapter 14A of the Listing Rules but are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

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

CONNECTED TRANSACTION

On 22 December 2016, Cascade Technology Limited ("Cascade Technology"), an indirect wholly-owned subsidiary of the Company, entered into with WaveLab Holdings a loan agreement (the "Loan Agreement") pursuant to which Cascade Technology agreed to lend a loan in principal amount of 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, an executive Director and a shareholder of the Company, is also a substantial shareholder of WaveLab Holdings, WaveLab Holdings is considered to be a connected person of the Company under the Listing Rules and all the transactions contemplated thereunder constitute connected transactions for the Company under the Listing Rules.

For details, please refer to the announcement of the Company dated 22 December 2016.

CONTINUING CONNECTED TRANSACTIONS

On 22 December 2016, Comba Telecom Systems Investments Limited ("Comba Systems BVI"), a direct wholly-owned subsidiary of the Company, entered into 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 such 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 and WaveLab Holdings as disclosed above, WaveLab Holdings is considered to be a connected person of the Company under the Listing Rules and all the transactions contemplated thereunder constitute continuing connected transactions for the Company under the Listing Rules.

As set out in the announcement of the Company dated 22 December 2016, the annual caps for the WTAP Transaction and the WTAP-Components Transaction for the year ended 31 December 2017 were HK$107,000,000 and HK$4,300,000, respectively. The total consideration for the WTAP Transaction and the WTAP-Components Transaction during the Current Year amounted to HK$75,267,000 and HK1,639,000, respectively which are within the annual caps of HK$107,000,000 and HK$4,300,000, respectively.

For details, please refer to the announcement of the Company dated 22 December 2016.

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

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

(ii) on normal commercial terms or better; and

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

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

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, there is sufficient public float of more than 25% of the Company's total issued share capital as required under the Listing Rules as at 31 December 2017 and the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 41 to the consolidated financial statements.

AUDITOR

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

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2018

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 155, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Inventories provision The Company is principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services. Since the technology develops rapidly in the telecommunications industry, the Group's inventories are subject to significant risk of obsolescence and significant management's judgements and estimates were involved in determining the provisions against obsolete and slow-moving inventories. We focused on this area because balances of inventories were significant to the Group (12% of total assets) and inventories provision was made based on subjective estimates and was influenced by assumptions concerning future consumption. The Group's disclosures about accounting judgements and estimates relating to and the recognition of inventories provision are included in notes 3 and 6 to the consolidated financial statements.	We evaluated the sales forecasts prepared by management for the purpose of identifying slow-moving and obsolete inventories by checking, on a sample basis, to the sales orders and agreements, and assessing the estimated sales by taking into account the accuracy of previous estimations, the historic evidence supporting underlying assumptions and current market conditions. We also tested on a sample basis the accuracy of the inventories aging report. For the net realizable value of obsolete and slow-moving inventories identified, we have checked a sample of recent sales invoices for the value.
Impairment of trade receivables Impairment of trade receivables was made based on the assessment of the recoverability of receivables due from customers. The identification of impairment requires management's judgements and estimates. Specific factors considered by management included the age of the balance, location of customers, existence of disputes, historical payment patterns and any other available information concerning the creditworthiness of counterparties. We focused on this area because it required a high level of management's judgement and the trade receivable balances were significant to the Group (42% of total assets). Details of the impairment of trade receivables are disclosed in note 3 (significant accounting judgements and estimates) and note 22 (trade receivables) to the consolidated financial statements.	We evaluated management's assessment on impairment of trade receivables by checking, on a sample basis, the aging analysis and settlements made subsequent to the year-end date. For long-aged receivables, we have assessed the Group's provision by considering historical payment patterns, available information concerning the creditworthiness of the customers and any correspondence with customers on expected settlement dates which we sample tested the settlements for proper execution of such repayment schedules. For balances where a provision for impairment was recognized, we understood the rationale behind management's judgement, considering historical patterns of trading and settlement as well as recent communications with the counterparties.

Key audit matter	How our audit addressed the key audit matter
Business combination During the financial year of 2017, the Group completed the acquisition of 100% of shares of Jiafu Investments Limited, 100% of shares of Jiafu Holdings Limited and 51% of shares of ETL Company Limited (collectively "Jiafu Group") at a total cost of HK$753,081,000 and recognized goodwill of approximately HK$214,202,000 and other intangible assets of approximately HK$569,533,000. We focused on this area because the accounting for the acquisition relied on a significant amount of management estimations and judgements in respect of fair value assessments of assets acquired and liabilities assumed, and the transaction value was significant to the Group. Details of the business combination are disclosed in note 2.4 (summary of significant accounting policies), note 3 (significant accounting judgements and estimates) and note 32 (business combination) to the consolidated financial statements.	We obtained the share purchase agreement and evaluated the key terms, for instance the consideration and conditions for transfer of control. We assessed the competence, objectivity, and the relevant experience of the external appraiser engaged by the Group. We involved our internal valuation specialists to assist us in evaluating and testing the management's valuation methodologies, discount rates, other assumptions, and source data and market data used. We also assessed the adequacy of the related disclosures in the financial statements.

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**5,563,725**	5,954,328
Cost of sales		**(4,126,697)**	(4,225,937)
Gross profit		**1,437,028**	1,728,391
Other income and gains	5	**123,027**	173,689
Research and development costs	6	**(331,328)**	(227,608)
Selling and distribution expenses		**(510,499)**	(544,071)
Administrative expenses		**(575,677)**	(709,647)
Other expenses		**(41,456)**	(119,126)
Finance costs	7	**(47,861)**	(47,040)
Share of losses of:			
A joint venture		**(935)**	(139)
An associate		**(1,481)**	(2,332)
PROFIT BEFORE TAX	6	**50,818**	252,117
Income tax expense	9	**(29,185)**	(99,726)
PROFIT FOR THE YEAR		**21,633**	152,391
Attributable to:			
Owners of the parent		**27,373**	152,257
Non-controlling interests		**(5,740)**	134
		21,633	152,391
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**HK1.12cents**	HK6.23 cents
Diluted		**HK1.12cents**	HK6.23 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR	**21,633**	152,391
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**288,054**	(312,870)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**288,054**	(312,870)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**288,054**	(312,870)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**309,687**	(160,479)
Attributable to:		
Owners of the parent	**320,012**	(156,685)
Non-controlling interests	**(10,325)**	(3,794)
	309,687	(160,479)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,106,877**	537,970
Prepaid land lease payments	13	**126,935**	121,264
Goodwill	14	**253,077**	28,571
Deferred tax assets	15	**123,538**	109,409
Intangible assets	16	**848,418**	209,259
Investment in a joint venture	17	**–**	5,575
Investment in an associate	18	**–**	21,683
Available-for-sale investments	19	**19,247**	7,241
Prepayments	20	**–**	397,636
Restricted bank deposits	24	**99,221**	29,168
Total non-current assets		**2,577,313**	1,467,776
CURRENT ASSETS			
Inventories	21	**1,360,255**	1,357,700
Trade receivables	22	**4,522,757**	3,842,680
Notes receivable	23	**85,447**	46,919
Prepayments, deposits and other receivables	20	**886,365**	641,440
Tax recoverable		**48,693**	–
Restricted bank deposits	24	**234,769**	178,230
Cash and cash equivalents	24	**1,176,129**	1,420,214
Total current assets		**8,314,415**	7,487,183
CURRENT LIABILITIES			
Trade and bills payables	25	**3,682,536**	2,893,459
Other payables and accruals	26	**1,063,016**	1,105,620
Interest-bearing bank borrowings	27	**1,088,489**	693,660
Tax payable		**–**	11,159
Provisions for product warranties	28	**69,838**	70,571
Total current liabilities		**5,903,879**	4,774,469
NET CURRENT ASSETS		**2,410,536**	2,712,714
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,987,849**	4,180,490

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**493,891**	673,152
Deferred tax liabilities	15	**162,468**	14,189
Total non-current liabilities		**656,359**	687,341
Net assets		**4,331,490**	3,493,149
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**246,958**	246,106
Treasury shares	29	**(22,818)**	(22,818)
Reserves	31	**3,542,171**	3,214,399
		3,766,311	3,437,687
Non-controlling interests		**565,179**	55,462
Total equity		**4,331,490**	3,493,149

Fok Tung Ling
Director

Chang Fei Fu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the parent											
	Notes	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	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		203,377	(22,530)	692,154	19,327	45,827	61,364	134,221	289,762	2,229,029	3,652,531	59,256	3,711,787
Profit for the year		–	–	–	–	–	–	–	–	152,257	152,257	134	152,391
Other comprehensive loss for the year:													
Exchange differences related to foreign operations		–	–	–	–	–	–	–	(308,942)	–	(308,942)	(3,928)	(312,870)
Total comprehensive loss for the year		–	–	–	–	–	–	–	(308,942)	152,257	(156,685)	(3,794)	(160,479)
Issue of bonus shares	29(a)	42,710	(288)	(42,422)	–	–	–	–	–	–	–	–	–
Share option scheme													
– value of services	6	–	–	–	11,732	–	–	–	–	–	11,732	–	11,732
– exercise of share options	29(b)	19	–	339	(84)	–	–	–	–	–	274	–	274
– adjustment arising from lapse of share options		–	–	–	(422)	–	–	–	–	422	–	–	–
Transfer to/from retained profits		–	–	–	–	–	(3,609)	23,304	–	(19,695)	–	–	–
Final 2015 dividend declared		–	–	–	–	–	–	–	–	(36,608)	(36,608)	–	(36,608)
Interim 2016 dividend	10	–	–	–	–	–	–	–	–	(33,557)	(33,557)	–	(33,557)
At 31 December 2016		246,106	(22,818)	650,071	30,553	45,827	57,755	157,525	(19,180)	2,291,848	3,437,687	55,462	3,493,149

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the parent											
	Notes	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	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		246,106	(22,818)	650,071	30,553	45,827	57,755	157,525	(19,180)	2,291,848	3,437,687	55,462	3,493,149
Profit for the year		-	-	-	-	-	-	-	-	27,373	27,373	(5,740)	21,633
Other comprehensive income for the year:													
Exchange differences related to foreign operations		-	-	-	-	-	-	-	292,639	-	292,639	(4,585)	288,054
Total comprehensive income for the year		-	-	-	-	-	-	-	292,639	27,373	320,012	(10,325)	309,687
Acquisition of subsidiaries	32(b)	-	-	-	-	-	-	-	-	-	-	520,042	520,042
Share option scheme													
– value of services	6	-	-	-	17,093	-	-	-	-	-	17,093	-	17,093
– exercise of share options	29(c)	852	-	13,960	(3,601)	-	-	-	-	-	11,211	-	11,211
– adjustment arising from lapse of share options		-	-	-	26	-	-	-	-	(26)	-	-	-
Transfer to/from retained profits		-	-	-	-	-	(3,609)	17,520	-	(13,911)	-	-	-
Final 2016 dividend declared		-	-	-	-	-	-	-	-	(19,692)	(19,692)	-	(19,692)
At 31 December 2017		246,958	(22,818)	664,031*	44,071*	45,827*	54,146*	175,045*	273,459*	2,285,592*	3,766,311	565,179	4,331,490

* These reserve accounts comprise the consolidated reserves of HK$3,542,171,000 (2016: HK$3,214,399,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**50,818**	252,117
Adjustments for:			
Interest income	5	**(11,691)**	(7,921)
Finance costs	7	**47,861**	47,040
Share of losses of a joint venture and an associate		**2,416**	2,471
Loss on financial instrument at fair value through profit or loss, net	6	**–**	59,559
Depreciation	6	**108,293**	76,552
Recognition of prepaid land lease payments	6	**2,948**	2,753
Amortization of intangible assets	16	**111,720**	65,655
Equity-settled share option expense	6	**17,093**	11,732
Gain on disposal of an associate	5	**(16,321)**	–
Loss on disposal of items of property, plant and equipment	6	**1,011**	3,676
		314,148	513,634
Decrease in inventories		**132,398**	261,629
Increase in trade receivables		**(389,272)**	(131,183)
(Increase)/decrease in notes receivable		**(34,977)**	43,236
Decrease/(increase) in prepayments, deposits and other receivables		**15,424**	(64,822)
Increase/(decrease) in trade and bills payables		**547,340**	(166,620)
(Decrease)/increase in other payables and accruals		**(157,534)**	93,123
Decrease in provisions for product warranties		**(5,833)**	(9,747)
Cash generated from operations		**421,694**	539,250
Mainland China profits tax paid		**(85,452)**	(99,259)
Overseas profits taxes paid		**(13,989)**	(28,325)
Net cash flows from operating activities		**322,253**	411,666
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**11,691**	7,921
Purchases of items of property, plant and equipment	12	**(114,634)**	(52,460)
Addition of intangible assets	16	**(160,121)**	(77,227)
Proceeds from disposal of items of property, plant and equipment		**101**	12,470
Forward currency contract paid		**–**	(61,060)
Investment in a joint venture		**–**	(5,708)
Purchase of an available-for-sale investment		**(11,843)**	(8,518)
Acquisition of subsidiaries, net of cash acquired	32	**(307,151)**	–
Prepayment for acquisition of a subsidiary		**–**	(397,636)
(Increase)/decrease in restricted bank deposits		**(110,897)**	46,390
Net cash flows used in investing activities		**(692,854)**	(535,828)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,597,183**	1,871,023
Repayment of bank loans		**(1,529,303)**	(1,861,486)
Proceeds from issue of shares	29(c)	**11,211**	274
Interest paid		**(47,861)**	(47,040)
Dividends paid		**(19,692)**	(70,165)
Net cash flows from/(used in) financing activities		**11,538**	(107,394)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(359,063)**	(231,556)
Cash and cash equivalents at beginning of year		**1,420,214**	1,747,360
Effect of foreign exchange rate changes, net		**114,978**	(95,590)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,176,129**	1,420,214
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**1,174,614**	1,407,807
Non-pledged time deposits with original maturity of less than three months when acquired	24	**1,515**	12,407
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,176,129**	1,420,214

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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 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$299,000,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba 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 Software Technology (Guangzhou) Limited 京信軟件科技(廣州)有限公司*	PRC/Mainland China	HK$10,000,000	–	100	Provision of software technology services
Guangzhou Telink Telecom Equipment Ltd. 廣州泰聯電訊設備有限公司* (deregistered on 16 March 2018)	PRC/Mainland China	HK$1,000,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Guangzhou T&P Lead-In Communication Equipment Co., 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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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	Investment holding and 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 (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

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Noblefield International Limited	British Virgin Islands	US$1	–	100	Investment holding
Comba Telecom Inc.	State of Delaware/ United States of America	US$1	–	100	Research and development and trading of wireless telecommunications network system equipment
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	BRL13,003,344	–	100	Production and assembling and trading of wireless telecommunications network system equipment
Comba Telecom India Private Limited	India	INR500,000	–	100	Trading of wireless telecommunications network system equipment
Comba Telecom Macau Limited 京信通信澳門有限公司	Macau	MOP100,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
PT. Comba Telecom	Indonesia	US$100,000	–	100	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

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	MXN50,000	–	100	Provision of general and engineering services
Comba Telecom, S.L.U.	Spain	EUR100,000	–	100	Trading of wireless telecommunications network system equipment
Comba Technologies Sdn. Bhd.	Malaysia	RM2	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecomunicaciones del Peru S.A.C.	Peru	PEN100,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
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 (the "ETL") #	Lao People's Democratic Republic	LAK637,763,000,000	–	51	Provision of telecommunication and their value-added services

Note:

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

During the year, the Group obtained the control of Jiafu Investments Limited and Jiafu Holdings Limited, and acquired 51% of shares of ETL Company Limited (collectively "Jiafu Group"). Further details of this acquisition are included in note 32(b) to the 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.

2.1 BASIS OF PREPARATION

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

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 33 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 33 to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilize a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognize any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed an assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarized as follows:

(a) CLASSIFICATION AND MEASUREMENT

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets except that the Group's equity investments currently classified as available-for sale will be reclassified to financial assets at fair value through profit or loss or other comprehensive income, which is being under the process of the election to present in other comprehensive income or not the subsequent changes in the fair value of those equity investments. If the irrevocable election is made, gains and losses recorded in other comprehensive income for those equity investments cannot be recycled to profit or loss when they are derecognised. The Group is in the progress of assessing the fair value of those equity investments and making an assessment of the impact of these changes on the consolidated financial statements.

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

(b) IMPAIRMENT

HKFRS 9 requires an impairment on debt instruments recorded at amortized cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognize the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed an assessment on the impact of the adoption of HKFRS 15. The expected changes in accounting policies will not have any significant impact on the Group's financial statements.

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 35(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$144,646,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognized as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognized, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognizes a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognizing the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018.

HK(IFRIC)-Int 23, issued in July 2017, 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. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL (continued)

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

FAIR VALUE MEASUREMENT

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

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

Computer software and technology

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

Golf club membership

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

Operating licence

Purchased operating licence 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES

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

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

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Available-for-sale financial investments (continued)

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS (continued)

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

Financial assets carried at amortized cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Financial assets carried at amortized cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

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

Available-for-sale financial investments

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

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

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

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

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31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES

Initial recognition and measurement

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

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, derivative financial instrument and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

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

TREASURY SHARES

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

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROVISIONS

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

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

Provisions for product warranties granted by the Group on certain products are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

GOVERNMENT GRANTS

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods that the costs, which it is intended to compensate, are expensed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods and the related installation, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

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

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

(e) provision of telecommunication services income, when the underlying services have been rendered.

SHARE-BASED PAYMENTS

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SHARE-BASED PAYMENTS (continued)

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

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

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

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

OTHER EMPLOYEE BENEFITS

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BORROWING COSTS

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

DIVIDENDS

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

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

FOREIGN CURRENCIES

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

JUDGEMENTS

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

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY

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

Impairment allowances for trade and other receivables

Impairment allowances for trade and other receivables are made based on assessment of the recoverability of trade and other receivables with reference to the age of the balance, location of debtors, existence of disputes, historical payment patterns and any other available information concerning the creditworthiness of the counterparties. The identification of impairment allowances requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the receivables and any additional impairment or reversal of impairment will be reflected in the period in which such estimate has been changed. Please refer to note 22 to the financial statements for details of impairment for trade receivables.

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 2017 was HK$1,360,255,000 (2016: HK$1,357,700,000). For details, please refer to note 21 to the financial statements. During the year ended 31 December 2017, a write-down of inventories of HK$86,040,000 (2016: HK$83,587,000) was recognized in the consolidated statement of profit or loss. For details, please refer to note 6 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was approximately HK$253,077,000 (2016: HK$28,571,000). For details, refer to note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Impairment of non-financial assets (other than goodwill)

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

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2017, the best estimate of the carrying amount of capitalized development costs was HK$265,739,000 (2016: HK$189,082,000). For details, please refer to note 16 to the financial statements.

Application of purchase price allocation

When performing purchase price allocation for subsidiaries acquired in a business combination, the Group makes several estimates in determination of the fair value of the operating licence, based on the expected cash flow, discount rates, other assumptions, source data and market data that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. For details, please refer to note 32 to the financial statements.

Provisions for product warranties

The Group generally provides 1 to 2 years warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provisions is estimated based on the sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provisions for product warranties were not discounted as the effect of discounting was not material.

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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

(b) 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.

Year ended 31 December 2017	**Wireless telecommunications network system equipment HK$'000**	**Telecommunication services HK$'000**	**Total HK$'000**
Revenue	**5,470,700**	**93,025**	**5,563,725**
Profit/(loss) before tax	**73,985**	**(23,167)**	**50,818**
Segment assets	**9,625,966**	**1,552,850**	**11,178,816**
Elimination			**(287,088)**
Total assets			**10,891,728**
Segment liabilities	**6,535,933**	**311,393**	**6,847,326**
Elimination			**(287,088)**
Total liabilities			**6,560,238**

Year ended 31 December 2016	Wireless telecommunications network system equipment HK$'000
Revenue	5,954,328
Profit before tax	252,117
Total assets	8,954,959
Total liabilities	5,461,810

4. OPERATING SEGMENT INFORMATION (continued)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2017 HK$'000	2016 HK$'000
Mainland China	**4,376,466**	5,031,822
Other countries/areas in Asia Pacific	**645,581**	432,775
Americas	**315,260**	263,651
European Union	**170,007**	186,702
Middle East	**49,856**	35,481
Other countries	**6,555**	3,897
	5,563,725	5,954,328

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

(b) Non-current assets

	2017 HK$'000	2016 HK$'000
Mainland China	**1,268,606**	1,436,253
Lao People's Democratic Republic	**1,271,836**	–
Other countries/regions	**36,871**	31,523
	2,577,313	1,467,776

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue of approximately HK$1,662,626,000 (2016: HK$1,756,149,000), HK$1,287,415,000 (2016: HK$1,178,199,000) and HK$820,260,000 (2016: HK$1,536,667,000) was derived from 3 major customers, which accounted for 29.9% (2016: 29.5%), 23.1% (2016: 19.8%) and 14.7% (2016: 25.8%) of the total revenue of the Group, respectively.

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5. REVENUE, OTHER INCOME AND GAINS

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

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

	2017 HK$'000	2016 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**5,383,189**	5,726,945
Maintenance services	**87,511**	227,383
Provision of telecommunication services	**93,025**	–
	5,563,725	5,954,328
Other income and gains		
Bank interest income	**11,691**	7,921
Exchange gain, net	**–**	69,458
Government subsidies#	**55,692**	67,136
VAT refunds*	**22,664**	14,012
Gain on disposal of an associate	**16,321**	–
Gross rental income	**6,623**	6,086
Others	**10,036**	9,076
	123,027	173,689

\# 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 2016 and 2017, Comba Software Technology (Guangzhou) Limited ("Comba Software"), being designated as a software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

6. PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold and services provided		**3,869,082**	4,053,089
Depreciation	12	**108,293**	76,552
Recognition of prepaid land lease payments	13	**2,948**	2,753
Amortization of computer software and technology and operating licence	16	**13,800**	3,520
Research and development costs:			
Deferred expenditure amortized*	16	**97,920**	62,135
Current year expenditure		**331,328**	227,608
		429,248	289,743
Minimum lease payments under operating leases		**53,671**	53,215
Auditor's remuneration		**3,646**	3,768
Employee benefit expense (including directors' remuneration, note 8)^:			
Salaries and wages		**888,658**	978,975
Staff welfare expenses		**71,627**	72,318
Equity-settled share option expense	30(a)	**17,093**	11,732
Pension scheme contributions (defined contribution schemes)#		**84,080**	75,957
		1,061,458	1,138,982
Exchange loss/(gain), net##		**22,694**	(69,458)
Write-down of inventories to net realizable value		**86,040**	83,587
Impairment of trade receivables	22	**26,053**	46,568
Provision for product warranties	28	**29,494**	17,787
Loss on financial instrument at fair value through profit or loss, net		**–**	59,559
Loss on disposal of items of property, plant and equipment		**1,011**	3,676

* 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$129,277,000 (2016: HK$61,113,000) have not been included in the employee benefit expense.

\# At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).

\## Net exchange loss and net exchange gain are included in "Administrative expenses" and "Other income" in the consolidated statement of profit or loss, respectively.

7. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank loans	**47,861**	47,040

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:

	2017 HK$'000	2016 HK$'000
Fees	**815**	970
Other emoluments:		
Salaries, allowances and benefits in kind	**10,666**	10,902
Performance related bonuses	**12,620**	15,886
Equity-settled share option expense	**1,609**	1,361
Pension scheme contributions	**230**	244
	25,125	28,393
	25,940	29,363

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

(a) EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

2017	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	–	2,068	3,289	37	18	5,412
Mr. Zhang Yue Jun	–	1,861	4,044	37	76	6,018
Mr. Zheng Guo Bao	100	2,526	–	–	76	2,702
Mr. Yeung Pui Sang, Simon	–	3,097	2,915	717	18	6,747
Mr. Zhang Yuan Jian	–	1,114	2,372	717	42	4,245
	100	10,666	12,620	1,508	230	25,124
Independent non-executive directors:						
Mr. Liu Cai (resigned on 31 March 2017)	55	–	–	17	–	72
Mr. Lau Siu Ki, Kevin	220	–	–	28	–	248
Dr. Lin Jin Tong	220	–	–	28	–	248
Mr. Qian Ting Shuo	220	–	–	28	–	248
	715	–	–	101	–	816
	815	10,666	12,620	1,609	230	25,940

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

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

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

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

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

(b) 5 HIGHEST PAID EMPLOYEES

The 5 highest paid employees during the year included 3 directors (2016: 4 directors), details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining 2 (2016: 1) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 HK$'000
Salaries, allowances and benefits in kind	4,304
Performance related bonuses	3,640
Equity-settled share option expense	1,376
Pension scheme contributions	118
	9,438

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

	Number of employees 2017
HK$4,000,001 to HK$4,500,000	1
HK$5,000,001 to HK$5,500,000	1
	2

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9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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.

	2017 **HK$'000**	2016 HK$'000
Current – Hong Kong		
Charged for the year	**1,064**	7,976
Underprovision in prior years	**1,121**	–
Current – Mainland China		
Charged for the year	**21,984**	64,095
Overprovision in prior year	**–**	(6,142)
Current – Elsewhere	**14,576**	11,700
Deferred	**(9,560)**	22,097
Total tax charge for the year	**29,185**	99,726

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

Comba Telecom Technology (Guangzhou) Limited, Comba Telecom Systems (China) Limited, Comba Software Technology (Guangzhou) Limited and Comba Telecom Systems (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the year ended 31 December 2017 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 2017.

9. INCOME TAX (continued)

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

	2017		2016	
	HK$'000	%	HK$'000	%
Profit before tax	**50,818**		252,117	
Tax at the applicable tax rate in Mainland China	**12,705**	**25.00**	63,029	25.00
Lower tax rates for specific provinces or enacted by local authority	**6,399**	**12.59**	(8,046)	(3.19)
Effect on opening deferred tax of decrease in rate	**–**	**–**	7,770	3.08
Adjustments in respect of current tax of previous years	**1,121**	**2.21**	(6,142)	(2.44)
Income not subject to tax	**(746)**	**(1.47)**	(14,413)	(5.72)
Expenses not deductible for tax	**23,704**	**46.64**	38,792	15.39
Additional deductible research and development expenses	**(31,264)**	**(61.52)**	(21,983)	(8.72)
Tax losses utilized from previous years	**(7,293)**	**(14.35)**	(50)	(0.02)
Tax losses not recognized	**24,559**	**48.33**	40,769	16.17
Tax charge at the Group's effective rate	**29,185**	**57.43**	99,726	39.55

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$133,259,000 (2016: HK$153,931,000) 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 2017.

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

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10. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Interim – Nil (2016: HK1.5 cents) per ordinary share	–	33,557
Proposed final – Nil (2016: HK0.8 cents) per ordinary share	–	19,688
	–	53,245

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,448,729,000 (2016: 2,444,321,000) in issue during the year.

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

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2017 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	2017 HK$'000	2016 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	27,373	152,257

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	2,448,729,000	2,444,321,000

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	Total HK$'000
31 December 2017					
At 31 December 2016 and 1 January 2017:					
Cost or valuation	462,807	581,877	196,327	36,205	1,277,216
Accumulated depreciation	(84,293)	(464,571)	(160,685)	(29,697)	(739,246)
Net carrying amount	378,514	117,306	35,642	6,508	537,970
At 1 January 2017, net of accumulated depreciation	378,514	117,306	35,642	6,508	537,970
Additions	18,413	70,006	23,435	2,780	114,634
Acquisition of subsidiaries (note 32)	138,236	386,516	19,057	7,859	551,668
Disposals	–	(411)	(656)	(45)	(1,112)
Depreciation provided during the year	(26,581)	(62,109)	(16,623)	(2,980)	(108,293)
Exchange realignment	9,581	97	1,463	869	12,010
At 31 December 2017, net of accumulated depreciation	518,163	511,405	62,318	14,991	1,106,877
At 31 December 2017:					
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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

For the year ended 31 December 2017, no revaluation of buildings was performed as there were no significant movements in the fair value of the buildings.

13. PREPAID LAND LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**124,002**	134,969
Recognized during the year	**(2,948)**	(2,753)
Exchange realignment	**8,813**	(8,214)
Carrying amount at 31 December	**129,867**	124,002
Current portion included in prepayments, deposits and other receivables	**(2,932)**	(2,738)
Non-current portion	**126,935**	121,264

14. GOODWILL

	2017 HK$'000	2016 HK$'000
Cost and net carrying amount at 1 January	**28,571**	28,571
Acquisition of subsidiaries (note 32)	**224,506**	–
Cost and net carrying amount at 31 December	**253,077**	28,571

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

(a) Wireless telecommunications equipment CGU; and

(b) Provision of 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 19% (2016: 19%).

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

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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 2016	70,401	46,378	23,477	–	140,256
Deferred tax (charged)/credited to the statement of profit or loss during the year	(27,999)	12,141	(7,031)	–	(22,889)
Exchange realignment	(3,220)	(3,537)	(1,201)	–	(7,958)
At 31 December 2016	39,182	54,982	15,245	–	109,409
Deferred tax (charged)/credited to the statement of profit or loss during the year	(10,529)	(10,840)	(904)	27,957	5,684
Exchange realignment	2,460	3,714	1,117	1,154	8,445
At 31 December 2017	31,113	47,856	15,458	29,111	123,538

15. DEFERRED TAX (continued)

DEFERRED TAX LIABILITIES

	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2016	10,773	4,208	14,981
Deferred tax credited to the statement of profit or loss during the year	(632)	(160)	(792)
At 31 December 2016	**10,141**	**4,048**	**14,189**
Deferred tax credited to the statement of profit or loss during the year	**(632)**	**(3,244)**	**(3,876)**
Acquisition of subsidiaries (note 32(b))	**–**	**152,155**	**152,155**
At 31 December 2017	**9,509**	**152,959**	**162,468**

At 31 December 2017, 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$2,268,788,000 at 31 December 2017 (2016: HK$2,264,497,000).

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16. 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
31 December 2017					
Cost at 1 January 2017, net of accumulated amortization	–	19,063	1,114	189,082	209,259
Additions	–	2,324	–	157,797	160,121
Acquisition of subsidiaries (note 32)	569,533	457	–	–	569,990
Amortization provided during the year	(9,717)	(4,083)	–	(97,920)	(111,720)
Exchange realignment	–	3,988	–	16,780	20,768
At 31 December 2017	559,816	21,749	1,114	265,739	848,418
At 31 December 2017:					
Cost	569,533	83,159	1,114	564,553	1,218,359
Accumulated amortization	(9,717)	(61,410)	–	(298,814)	(369,941)
Net carrying amount	559,816	21,749	1,114	265,739	848,418

	Computer software and technology HK$'000	Golf club membership HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December 2016				
Cost at 1 January 2016, net of accumulated amortization	16,403	1,114	194,321	211,838
Additions	7,446	–	69,781	77,227
Amortization provided during the year	(3,520)	–	(62,135)	(65,655)
Exchange realignment	(1,266)	–	(12,885)	(14,151)
At 31 December 2016	19,063	1,114	189,082	209,259
At 31 December 2016:				
Cost	37,508	1,114	406,756	445,378
Accumulated amortization	(18,445)	–	(217,674)	(236,119)
Net carrying amount	19,063	1,114	189,082	209,259

17. INVESTMENT IN A JOINT VENTURE

	2017 HK$'000	2016 HK$'000
Share of net assets	–	5,575

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

	2017 HK$'000	2016 HK$'000
Share of the joint venture's loss for the year	(935)	(139)
Share of the joint venture's total comprehensive loss	(935)	(139)
Carrying amount of the Group's investment in the joint venture	–	5,575

On 13 July 2017, the Group acquired the rest of 48.86% interest in a joint venture from a third party, further details are given in note 32(a).

18. INVESTMENT IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
Share of net assets	–	21,683

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

	2017 HK$'000	2016 HK$'000
Share of the associate's loss for the year	(1,481)	(2,332)
Share of the associate's total comprehensive loss	(1,481)	(2,332)
Carrying amount of the Group's investment in the associate	–	21,683

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19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Unlisted equity investments, at cost	**19,247**	7,241

As at 31 December 2017, certain unlisted equity investments with carrying amounts of HK$19,247,000 (2016: HK$7,241,000) were stated at cost less impairment because the range of reasonable fair value estimates are so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Non-current assets		
Prepayments	**–**	397,636
Current assets		
Prepayments	**460,202**	341,519
Deposits	**171,965**	143,176
Other receivables	**254,198**	156,745
	886,365	641,440

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

21. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**283,378**	185,317
Project materials	**92,956**	168,005
Work in progress	**93,350**	61,666
Finished goods	**473,768**	388,741
Inventories on site	**416,803**	553,971
	1,360,255	1,357,700

22. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**4,685,138**	3,989,253
Impairment	**(162,381)**	(146,573)
	4,522,757	3,842,680

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

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

	2017 HK$'000	2016 HK$'000
Within 3 months	**1,916,966**	1,412,098
4 to 6 months	**293,207**	298,888
7 to 12 months	**802,015**	631,684
More than 1 year	**1,672,950**	1,646,583
	4,685,138	3,989,253
Provision for impairment	**(162,381)**	(146,573)
	4,522,757	3,842,680

22. TRADE RECEIVABLES (continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**146,573**	93,315
Impairment losses recognized	**26,053**	46,568
Amount written off as uncollectible	**(10,585)**	(3,705)
Exchange realignment	**340**	10,395
	162,381	146,573

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$162,381,000 (2016: HK$146,573,000) with a carrying amount before provision of HK$192,031,000 (2016: HK$146,573,000).

The individually impaired trade receivables relate to customers that were in default in payments and only a portion of the receivables is expected to be recovered.

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

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**2,994,778**	2,342,668
Less than 1 year past due	**736,849**	712,726
1 to 2 years past due	**228,726**	295,102
More than 2 years past due	**532,754**	492,184
	4,493,107	3,842,680

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

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

23. NOTES RECEIVABLE

At 31 December 2016 and 2017, none of the notes receivable were endorsed.

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

24. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**1,174,614**	1,407,807
Time deposits	**335,505**	219,805
	1,510,119	1,627,612
Less:		
Restricted bank deposits for bills payable	**(86,220)**	(60,246)
Restricted bank deposits for performance bonds	**(247,770)**	(147,152)
Cash and cash equivalents	**1,176,129**	1,420,214

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$901,779,000 (2016: HK$1,088,929,000). 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.

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25. TRADE AND BILLS PAYABLES

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

	2017 HK$'000	2016 HK$'000
Within 3 months	**1,913,780**	1,458,277
4 to 6 months	**564,563**	641,136
7 to 12 months	**599,709**	372,124
More than 1 year	**604,484**	421,922
	3,682,536	2,893,459

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

26. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Accruals	**271,553**	304,278
Deposits received	**100,297**	87,127
Other payables	**691,166**	714,215
	1,063,016	1,105,620

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

27. INTEREST-BEARING BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Analyzed into:		
Within 1 year or on demand	**1,088,489**	693,660
In the 2nd to 3rd years, inclusive	**493,891**	673,152
	1,582,380	1,366,812

As at 31 December 2017, loans denominated in Hong Kong dollars, RMB, United States dollars and EURO amounted to HK$1,239,228,000 (2016: HK$890,000,000), HK$343,152,000 (2016: HK$454,770,000), Nil (2016: HK$21,389,000) and Nil (2016: HK$653,000), respectively.

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values (note 39).

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

Bank loans as at 31 December 2017 bear interest at rates ranging from 2.1% to 5.0% (2016: from 1.3% to 4.5%) per annum.

28. PROVISIONS FOR PRODUCT WARRANTIES

	2017 HK$'000	2016 HK$'000
At 1 January	**70,571**	85,394
Additional provisions	**29,494**	17,787
Amounts utilized during the year	**(35,327)**	(27,534)
Exchange realignment	**5,100**	(5,076)
At 31 December	**69,838**	70,571

The Group generally provides warranties of 1 to 2 years to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provisions is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provisions for product warranties were not discounted as the effect of discounting was not material.

29. SHARE CAPITAL

Shares	2017 HK$'000	2016 HK$'000
Authorized: 5,000,000,000 (2016: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid: 2,469,580,860 (2016: 2,461,058,124) ordinary shares of HK$0.10 each	**246,958**	246,106

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 2016		2,033,767,128	203,377	(22,530)	692,154	873,001
Issue of bonus shares	(a)	427,103,029	42,710	(288)	(42,422)	–
Share option scheme – exercise of share options	(b)	187,967	19	–	339	358
At 31 December 2016 and 1 January 2017		**2,461,058,124**	**246,106**	**(22,818)**	**650,071**	**873,359**
Share option scheme – exercise of share options	(c)	**8,522,736**	**852**	**–**	**13,960**	**14,812**
At 31 December 2017		**2,469,580,860**	**246,958**	**(22,818)**	**664,031**	**888,171**

As at 31 December 2017, the total number of issued ordinary shares of the Company was 2,469,580,860 (2016: 2,461,058,124) shares which included 16,637,136 (2016: 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) Pursuant to the annual general meeting and the extraordinary general meeting held on 27 May 2016 (the "May 2016 Bonus Issue") and 11 October 2016 (the "Oct 2016 Bonus Issue") respectively, bonus issues of shares on the basis of 1 bonus share for every 10 existing shares held on the respective record dates were approved. 203,376,682 bonus shares and 223,726,347 bonus shares were issued under the May 2016 Bonus Issue and the Oct 2016 Bonus Issue respectively. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

29. SHARE CAPITAL (continued)

Notes:(continued)

(b) During the year ended 31 December 2016, the subscription rights attaching to 187,967 share options were exercised at the adjusted exercise prices ranging from HK$1.354 to HK$1.489 per share, resulting in the issue of 187,967 shares of HK$0.10 each for a total cash consideration, before expenses of approximately HK$274,000.

(c) During the year ended 31 December 2017, the subscription rights attaching to 5,206,486 share options and 3,316,250 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 8,522,736 shares of HK$0.10 each for a total cash consideration, before expenses of approximately HK$11,211,000.

30. 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, licencees, wholesalers, retailers, traders or distributors of goods or services of members of the Group, the Company's controlling shareholders or companies controlled by the Company's controlling shareholders.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme, the Share Award Scheme (note 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.

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30. 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 of Hong Kong Limited (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:

	2017		2016	
	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	1.296	131,934,337	1.354	58,103,925
Exercised during the year	1.315	(8,522,736)	1.354	(201,996)
Lapsed during the year	1.310	(3,826,439)	1.354	(2,967,592)
Granted during the year	–	–	1.255	77,000,000
At 31 December	1.294	119,585,162	1.296	131,934,337

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

30. 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 2017	Number of share options Granted during the year	Adjusted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2017	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
Executive directors										
Mr. Fok Tung Ling	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. Yeung Pui Sang, Simon	2,415,762	–	–	–	–	–	2,415,762	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^
	5,715,762	–	–	–	–	–	5,715,762			
Mr. Zhang Yuan Jian	2,415,762	–	–	–	–	–	2,415,762	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^
	5,715,762	–	–	–	–	–	5,715,762			

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31 December 2017

30. 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)

	Number of share options									
Name or category of participant	At 1 January 2017	Granted during the year	Adjusted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2017	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
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^
	271,049	–	–	–	–	–	271,049			
Dr. Lin Jin Tong	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^
	271,049	–	–	–	–	–	271,049			
Mr. Qian Ting Shuo	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^
	271,049	–	–	–	–	–	271,049			
Mr. Liu Cai	161,049	–	–	–	–	–	161,049	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
(resigned on 31 March 2017)	110,000	–	–	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	271,049	–	–	–	–	–	271,049			
Other employees in aggregate	47,848,111	–	–	(5,206,486)	–	(2,109,439)	40,532,186	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	69,960,000	–	–	(3,316,250)	–	(1,717,000)	64,926,750	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	117,808,111	–	–	(8,522,736)	–	(3,826,439)	105,458,936			
	131,934,337	–	–	(8,522,736)	–	(3,826,439)	119,585,162			

30. 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.

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

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

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

31 December 2017 Number of share options	**Exercise price of share options HK$**	**Exercise period**
47,618,412#	**1.354#**	**11 April 2015 to 10 April 2019**
71,966,750^	**1.255^**	**26 August 2017 to 25 August 2021**
119,585,162		

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

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

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

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

(a) SHARE OPTION SCHEME (continued)

The expense recognized in the consolidated statement of profit or loss for employee services received during the year is approximately HK$17,093,000 (2016: HK$11,732,000).

At the end of the reporting period, the Company had 119,585,162 share options outstanding under the 2013 Scheme, of which 49,438,855 were vested and 70,146,307 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 119,585,162 additional ordinary shares of the Company and additional share capital of HK$11,959,000 and share premium of HK$142,835,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 118,546,693 share options outstanding under the 2013 Scheme, which represented approximately 4.80% of the Company's shares in issue as at that date.

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 3 June 2015, the Company may further grant 168,071,158 share options (being 10% of the total number of issued shares of the Company as at 3 June 2015). Since 70,000,000 share options were granted on 26 August 2016 and adjustments of totalling 25,422,026 share options were made after certain issues of bonus shares, the total number of unissued share options under the scheme limit became 72,649,132 representing approximately 2.94% of the Company's shares in issue as at 31 December 2017.

(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.

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.

30. SHARE OPTION SCHEME AND SHARE AWARD 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 2016 and 2017 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2017 and 31 December 2017	**16,637,136**
At 1 January 2016	13,749,702
Issue of bonus shares	2,887,434
At 31 December 2016	16,637,136

No Awarded Shares held for Selected Persons were outstanding as at 31 December 2017.

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 72 and 73 of the financial statements.

Pursuant to the relevant laws and regulations of the PRC, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to the statutory reserve which is restricted as to use.

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32. BUSINESS COMBINATION

(a) ACQUISITION OF REMAINING INTEREST IN A JOINT VENTURE

On 23 June 2017, the Group entered into a share purchase agreement with a third party to acquire the rest of 48.86% interest in a joint venture, which is engaged in research and development and sale of telecommunications equipment and provision of related consultancy services, at a consideration of HK$20,346,000. The acquisition was completed on 13 July 2017. The acquisition was made as part of the Group's strategy to expand its market share of telecommunications industry.

The fair values of the identifiable assets and liabilities of the subsidiary as at the date of acquisition were as follows:

	Fair value recognized on acquisition HK$'000
Property, plant and equipment	21
Intangible assets	457
Prepayments, deposits and other receivables	28,707
Cash and cash equivalents	362
Inventories	10,048
Trade and bills payables	(10,101)
Other payables and accruals	(8,943)
Total identifiable net assets at fair value	20,551
Goodwill on acquisition	10,304
	30,855
Satisfied by:	
Cash	20,346
Previously held equity interest remeasured at acquisition-date fair value	10,509
	30,855

No transaction costs were incurred in this acquisition.

32. BUSINESS COMBINATION (continued)

(a) ACQUISITION OF REMAINING INTEREST IN A JOINT VENTURE (continued)

Included in the goodwill of HK$10,304,000 recognized above are mainly synergies to be realized through its local production and reach of a broader customer base, which are not recognized separately. Because these items cannot be sold, transferred, licenced, rented or otherwise exchanged without causing disruption to the acquired business and/or are not themselves assets at the acquisition date, they are not separable and therefore they do not meet the criteria for recognition as intangible assets under HKAS 38 Intangible Assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(20,346)
Cash and bank balances acquired	362
Net outflow of cash and cash equivalents included in cash flows from investing activities	(19,984)

Since the acquisition, the subsidiary contributed HK$9,966,000 to the Group's revenue and HK$3,547,000 loss to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$5,564,449,000 and HK$19,841,000, respectively, as compared to revenue and profit for the Group amounting to HK$5,563,725,000 and HK$21,633,000 for the current year, respectively.

(b) ACQUISITION OF JIAFU GROUP

On 31 August 2016, the Group entered into a share purchase agreement with a third party to acquire the 100% interest in Jiafu Group, which is engaged in the provision of telecommunication and their value-added services, at a consideration of HK$753,081,000. As at 31 December 2016, the Group has prepaid HK$397,636,000 for the acquisition. The acquisition was completed on 18 July 2017. The acquisition was made as part of the Group's strategy to expand its market share of telecommunications industry.

The Group has elected to measure the non-controlling interest in Jiafu Group at the non-controlling interest's proportionate share of the non-wholly-owned subsidiary, ETL's identifiable net assets.

32. BUSINESS COMBINATION (continued)

(b) ACQUISITION OF JIAFU GROUP (continued)

The fair values of the identifiable assets and liabilities of Jiafu Group as at the date of acquisition were as follows:

	Fair value recognized on acquisition HK$'000
Property, plant and equipment	551,647
Intangible assets	569,533
Prepayments, deposits and other receivables	151,777
Cash and cash equivalents	68,278
Inventories	22,157
Interest-bearing bank borrowings	(144,000)
Other payables and accruals	(8,316)
Deferred tax liabilities	(152,155)
Total identifiable net assets at fair value	1,058,921
Non-controlling interests	(520,042)
Goodwill on acquisition	214,202
Satisfied by cash	753,081

The Group incurred transaction costs of HK$6,118,000 for this acquisition. These transaction costs have been expensed and are included in the consolidated statement of profit or loss.

Included in the goodwill of HK$214,202,000 recognized above are mainly skilled workforce, potential growth opportunities, time-saving and money saving that would have been required to build a similar network from scratch, post-acquisition subscriber base development, state of relationships with governments or regulators and geographical expansion, which are not recognized separately. Because these items cannot be sold, transferred, licenced, rented or otherwise exchanged without causing disruption to the acquired business and/or are not themselves assets at the acquisition date, they are not separable and therefore they do not meet the criteria for recognition as intangible assets under HKAS 38 Intangible Assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

32. BUSINESS COMBINATION (continued)

(b) ACQUISITION OF JIAFU GROUP (continued)

An analysis of the cash flows in respect of the acquisition of Jiafu Group is as follows:

	HK$'000
Cash consideration	(753,081)
Consideration paid in previous year	397,636
Cash and bank balances acquired	68,278
Net outflow of cash and cash equivalents included in cash flows from investing activities	(287,167)

Since the acquisition, the subsidiary contributed HK$93,025,000 to the Group's revenue and HK$23,167,000 loss to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$5,695,490,000 and HK$7,627,000, respectively, as compared to revenue and profit of the Group amounting to HK$5,563,725,000 and HK$21,633,000 for the current year, respectively.

33. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities were as follows:

	Interest-bearing bank borrowings HK$'000
At 1 January 2017	1,366,812
Changes from financing cash flows	67,880
Foreign exchange movement	3,688
Increase arising from acquisition of subsidiaries	144,000
At 31 December 2017	1,582,380

34. CONTINGENT LIABILITIES

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

	2017 HK$'000	2016 HK$'000
Guarantees given to banks in respect of performance bonds*	302,276	209,426

* Part of performance bonds are secured by the pledge of certain of the Group's time deposits amounting to HK$247,770,000 (2016: HK$147,152,000).

35. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

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

As at 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**4,675**	4,462
In the 2nd to 5th years, inclusive	**3,188**	4,361
After 5 years	**–**	178
	7,863	9,001

(b) AS LESSEE

The Group leases certain of its office premises, warehouses, motor vehicles and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 1 to 10 years.

As at 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**44,061**	40,152
In the 2nd to 5th years, inclusive	**66,946**	35,965
After 5 years	**33,639**	–
	144,646	76,117

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for:		
Plant and machinery	**1,564**	415
Capital contribution payable to the associate	**–**	2,232
Acquisition of subsidiaries	**–**	355,913
	1,564	358,560

37. 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:

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	**24,101**	27,758
Equity-settled share option expense	**1,609**	1,361
Pension scheme contributions	**230**	244
Total compensation paid to key management personnel	**25,940**	29,363

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.

38. 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:

2017 Financial assets	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	19,247	19,247
Trade receivables	4,522,757	–	4,522,757
Notes receivable	85,447	–	85,447
Financial assets included in prepayments, deposits and other receivables	426,163	–	426,163
Restricted bank deposits	333,990	–	333,990
Cash and cash equivalents	1,176,129	–	1,176,129
	6,544,486	19,247	6,563,733

Financial liabilities	Financial liabilities at amortized cost HK$'000	Total HK$'000
Trade and bills payables	3,682,536	3,682,536
Financial liabilities included in other payables and accruals	732,502	732,502
Interest-bearing bank borrowings	1,582,380	1,582,380
	5,997,418	5,997,418

38. 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)

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

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

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The fair values of the non-current portion of restricted bank deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant.

As at 31 December 2016 and 2017, the carrying amounts of the Group's financial assets and financial liabilities approximate to their fair values.

FAIR VALUE HIERARCHY

The Group did not have any financial liabilities measured at fair value as at 31 December 2017.

The Group did not have any financial assets measured at fair value as at 31 December 2016 and 2017.

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

INTEREST RATE RISK

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

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**
2017			
Hong Kong dollars	**50**	**(1,440)**	**–**
RMB	**50**	**(1,029)**	**–**
Hong Kong dollars	**(50)**	**1,440**	**–**
RMB	**(50)**	**1,029**	**–**

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

* Excluding retained profits

40. 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 9.0% (2016: 7.8%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 90.6% (2016: 88.9%) 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$'000
2017			
If Hong Kong dollar weakens against US$	5	70,397	–
If Hong Kong dollar strengthens against US$	(5)	(70,397)	–
If Brazil dollar weakens against US$	5	(33,711)	–
If Brazil dollar strengthens against US$	(5)	33,711	–
If RMB weakens against US$	5	9,674	–
If RMB strengthens against US$	(5)	(9,674)	–
If Hong Kong dollar weakens against AED	5	(13,025)	–
If Hong Kong dollar strengthens against AED	(5)	13,025	–

40. 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$'000
2016			
If Hong Kong dollar weakens against US$	5	56,852	–
If Hong Kong dollar strengthens against US$	(5)	(56,852)	–
If Brazil dollar weakens against US$	5	(29,641)	–
If Brazil dollar strengthens against US$	(5)	29,641	–
If RMB weakens against US$	5	11,007	–
If RMB strengthens against US$	(5)	(11,007)	–
If Hong Kong dollar weakens against AED	5	(10,352)	–
If Hong Kong dollar strengthens against AED	(5)	10,352	–

* Excluding retained profits

CREDIT RISK

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determining of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is not significant. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk arising from other financial assets of the Group, which comprise cash at banks, notes receivable and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group has certain concentrations of credit risk as 35% (2016: 34%) and 78% (2016: 85%) of the Group's trade receivables were due from the Group's largest customer and the 5 largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables is disclosed in note 22 to the financial statements.

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. In addition, banking facilities have been put in place for contingency purposes. The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017			
	On demand HK$'000	**Within 1 year HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**809,228**	**307,113**	**509,158**	**1,625,499**
Trade and bills payables	**–**	**3,682,536**	**–**	**3,682,536**
Financial liabilities included in other payables and accruals	**–**	**732,502**	**–**	**732,502**
	809,228	**4,722,151**	**509,158**	**6,040,537**

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2017.

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:

	2017 **HK$'000**	2016 HK$'000
Interest-bearing bank borrowings	**1,582,380**	1,366,812
Total assets	**10,891,728**	8,954,959
Gearing ratio	**14.5%**	15.3%

41. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSET		
Investments in subsidiaries	**735,587**	689,455
CURRENT ASSETS		
Other receivables	**290**	290
Due from subsidiaries	**1,146,200**	1,146,200
Cash and cash equivalents	**2,868**	2,831
Total current assets	**1,149,358**	1,149,321
CURRENT LIABILITIES		
Due to a subsidiary	**463,161**	451,287
Other payables and accruals	**76,123**	75,643
Total current liabilities	**539,284**	526,930
NET CURRENT ASSETS	**610,074**	622,391
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,345,661**	1,311,846
NON-CURRENT LIABILITY		
Financial guarantee contracts	**40,426**	11,388
Net assets	**1,305,235**	1,300,458
EQUITY		
Issued capital	**246,958**	246,106
Treasury shares	**(22,818)**	(22,818)
Reserves (note)	**1,081,095**	1,077,170
Total equity	**1,305,235**	1,300,458

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

Note:

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

	Share premium account HK$'000	Contributed surplus* HK$'000	Share-based compensation reserve** HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2015	692,154	373,108	19,327	762	43,090	1,128,441
Profit and total comprehensive income for the year	–	–	–	–	49,329	49,329
Issue of bonus shares	(42,422)	–	–	–	–	(42,422)
Share option scheme						
– value of services	–	–	11,732	–	–	11,732
– exercise of share options	339	–	(84)	–	–	255
– adjustment arising from lapse of share options	–	–	(422)	–	422	–
Final 2015 dividend declared	–	–	–	–	(36,608)	(36,608)
Interim 2016 dividend	–	–	–	–	(33,557)	(33,557)
At 31 December 2016 and 1 January 2017	650,071	373,108	30,553	762	22,676	1,077,170
Loss and total comprehensive loss for the year	–	–	–	–	(3,835)	(3,835)
Share option scheme						
– value of services	–	–	17,093	–	–	17,093
– exercise of share options	13,960	–	(3,601)	–	–	10,359
– adjustment arising from lapse of share options	–	–	26	–	(26)	–
Final 2016 dividend declared	–	–	–	–	(19,692)	(19,692)
At 31 December 2017	664,031	373,108	44,071	762	(877)	1,081,095

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

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 22 March 2018.

5 YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**5,563,725**	5,954,328	6,770,894	6,733,214	5,720,599
Cost of sales	**(4,126,697)**	(4,225,937)	(4,856,404)	(4,973,204)	(4,355,013)
Gross profit	**1,437,028**	1,728,391	1,914,490	1,760,010	1,365,586
Other income and gains	**123,027**	173,689	49,908	60,903	68,408
Research and development costs	**(331,328)**	(227,608)	(230,916)	(192,986)	(207,158)
Selling and distribution expenses	**(510,499)**	(544,071)	(472,976)	(509,477)	(505,566)
Administrative expenses	**(575,677)**	(709,647)	(836,216)	(789,727)	(788,888)
Other expenses	**(41,456)**	(119,126)	(27,750)	(65,524)	(37,107)
Finance costs	**(47,861)**	(47,040)	(67,722)	(61,147)	(55,153)
Share of losses of:					
A joint venture	**(935)**	(139)	–	–	–
An associate	**(1,481)**	(2,332)	(127)	–	–
PROFIT/(LOSS) BEFORE TAX	**50,818**	252,117	328,691	202,052	(159,878)
Income tax expense	**(29,185)**	(99,726)	(109,755)	(47,532)	(84,867)
PROFIT/(LOSS) FOR THE YEAR	**21,633**	152,391	218,936	154,520	(244,745)
Attributable to:					
Owners of the parent	**27,373**	152,257	212,876	151,061	(240,722)
Non-controlling interests	**(5,740)**	134	6,060	3,459	(4,023)
	21,633	152,391	218,936	154,520	(244,745)
TOTAL ASSETS	**10,891,728**	8,954,959	9,574,875	10,136,732	10,318,277
TOTAL LIABILITIES	**(6,560,238)**	(5,461,810)	(5,863,088)	(6,370,777)	(6,590,386)
NON-CONTROLLING INTERESTS	**(565,179)**	(55,462)	(59,256)	(56,164)	(54,095)
	3,766,311	3,437,687	3,652,531	3,709,791	3,673,796

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