COMBA TELECOM SYSTEMS HOLDINGS LIMITED
京信通信系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2342)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by 2.1% to HK$5.78 billion
- Gross profit increased by 21.8% to HK$1.78 billion
- Gross profit margin increased by 4.9% points to 30.7%
- Profit attributable to shareholders: HK$0.15 billion
- Final dividend of HK1.2 cents per share (2018: Nil)
- Annual dividend payout ratio: 35.6% (2018: Nil)

RESULTS

The board (the "Board") of directors (the "Directors") of Comba Telecom Systems Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 (the "Current Year"), together with the comparative figures for the same period in 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	**2019** *HK$'000*	2018 *HK$'000*
REVENUE	*3*	**5,779,916**	5,663,310
Cost of sales		**(4,003,732)**	(4,204,709)
Gross profit		**1,776,184**	1,458,601
Other income and gains	*3*	**176,065**	170,091
Research and development costs	*4*	**(346,785)**	(353,090)
Selling and distribution expenses		**(559,599)**	(587,040)
Administrative expenses		**(573,966)**	(621,408)
Other expenses		**(237,211)**	(144,431)
Finance costs	*5*	**(104,013)**	(73,657)
PROFIT/(LOSS) BEFORE TAX	*4*	**130,675**	(150,934)
Income tax expense	*6*	**(61,853)**	(48,402)
PROFIT/(LOSS) FOR THE YEAR		**68,822**	(199,336)
Attributable to:			
Owners of the parent		**151,749**	(171,384)
Non-controlling interests		**(82,927)**	(27,952)
		68,822	(199,336)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**HK6.18 cents**	HK(7.07) cents
Diluted		**HK6.12 cents**	HK(7.07) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	HK\$'000	*HK\$'000*
PROFIT/(LOSS) FOR THE YEAR	**68,822**	(199,336)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(67,777)**	(248,037)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(67,777)**	(248,037)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(67,777)**	(248,037)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**1,045**	(447,373)
Attributable to:		
Owners of the parent	**92,698**	(409,655)
Non-controlling interests	**(91,653)**	(37,718)
	1,045	(447,373)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,320,293**	1,128,259
Right-of-use assets		**253,261**	–
Prepaid land lease payments		**–**	117,889
Goodwill		**253,077**	253,077
Deferred tax assets		**204,064**	102,013
Intangible assets		**859,853**	856,050
Equity investments designated at fair value through other comprehensive income		**13,423**	–
Equity investments designated at fair value through profit or loss		**28,473**	33,540
Restricted bank deposits		**71,532**	77,596
Prepayments		**–**	8,888
Total non-current assets		**3,003,976**	2,577,312
CURRENT ASSETS			
Inventories	*9*	**1,191,244**	1,306,831
Trade receivables	*10*	**3,997,781**	4,164,595
Notes receivable		**156,822**	118,950
Prepayments, other receivables and other assets		**790,901**	984,853
Tax recoverable		**–**	48,330
Restricted bank deposits		**169,179**	207,911
Cash and cash equivalents		**1,867,186**	1,893,859
Total current assets		**8,173,113**	8,725,329
CURRENT LIABILITIES			
Trade and bills payables	*11*	**4,026,068**	4,313,799
Other payables and accruals		**1,092,456**	960,834
Interest-bearing bank borrowings	*12*	**115,086**	1,624,499
Tax payable		**82,835**	–
Provision for product warranties		**73,764**	63,831
Total current liabilities		**5,390,209**	6,962,963
NET CURRENT ASSETS		**2,782,904**	1,762,366
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,786,880**	4,339,678
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*12*	**1,643,039**	375,557
Deferred tax liabilities		**152,415**	158,507
Lease liabilities		**94,409**	–
Total non-current liabilities		**1,889,863**	534,064
Net assets		**3,897,017**	3,805,614

	2019 *HK$'000*	2018 *HK$'000*
Net assets	**3,897,017**	3,805,614
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**248,599**	241,948
Treasury shares	**(22,818)**	(22,818)
Reserves	**3,235,428**	3,059,023
	3,461,209	3,278,153
Non-controlling interests	**435,808**	527,461
Total equity	**3,897,017**	3,805,614

NOTES

31 December 2019

1.1 CORPORATE AND GROUP INFORMATION

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

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

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

1.2 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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.

1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the annual consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19, HKAS 28 and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognize and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied as no adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of prepaid land lease payment, property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognizing rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognizes depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and accruals and lease liabilities. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	215,589
Decrease in prepaid land lease payments	(117,889)
Decrease in prepayments, other receivables and other assets	(2,788)
Increase in total assets	94,912
Liabilities	
Increase in other payables and accruals	23,750
Increase in lease liabilities	71,162
Increase in total liabilities	94,912

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	119,926
Weighted average incremental borrowing rate as at 1 January 2019	4.64%
Discounted operating lease commitments as at 1 January 2019	109,347
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 or of low-value assets	(14,435)
Lease liabilities as at 1 January 2019	94,912

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

1.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

[1] Effective for annual periods beginning on or after 1 January 2020

2. OPERATING SEGMENT INFORMATION

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

(a) Wireless telecommunications network system equipment and services

(b) Operator telecommunication services

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

Year ended 31 December 2019	**Wireless telecommunications network system equipment and services** *HK$'000*	**Operator telecommunication services** *HK$'000*	**Total** *HK$'000*
Revenue	5,624,052	155,864	5,779,916
Profit/(loss) before tax	299,600	(168,925)	130,675
Segment assets	10,047,303	2,015,179	12,062,482
Elimination			(885,393)
Total assets			11,177,089
Segment liabilities	7,134,953	1,030,512	8,165,465
Elimination			(885,393)
Total liabilities			7,280,072

Year ended 31 December 2018	Wireless telecommunications network system equipment and services *HK$'000*	Operator telecommunication services *HK$'000*	Total *HK$'000*
Revenue	5,478,358	184,952	5,663,310
Loss before tax	(80,174)	(70,760)	(150,934)
Segment assets	9,985,439	1,577,244	11,562,683
Elimination			(260,042)
Total assets			11,302,641
Segment liabilities	7,344,865	412,204	7,757,069
Elimination			(260,042)
Total liabilities			7,497,027

Geographical information

(a) Revenue from external customers

	2019 *HK$'000*	2018 *HK$'000*
Mainland China	**4,320,503**	3,722,043
Other countries/areas in Asia Pacific	**656,860**	1,192,201
Americas	**493,159**	441,583
European Union	**200,436**	232,705
Middle East	**100,061**	58,456
Other countries	**8,897**	16,322
	5,779,916	5,663,310

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

(b) Non-current assets

	2019 *HK$'000*	2018 *HK$'000*
Mainland China	**1,072,745**	1,112,091
Lao People's Democratic Republic	**1,889,404**	1,432,947
Other countries/regions	**41,827**	32,274
	3,003,976	2,577,312

Information about major customers

Revenue of approximately HK$1,734,492,000 (2018: HK$1,682,334,000), HK$850,561,000 (2018: HK$520,166,000) and HK$603,275,000 (2018: HK$783,323,000) was derived from 3 major customers, which accounted for 30.0% (2018: 29.7%), 14.7% (2018: 9.2%) and 10.5% (2018: 13.8%) of the total revenue of the Group, respectively.

3. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**5,575,561**	5,395,836
Maintenance services	**48,491**	82,522
Provision of operator telecommunication services	**155,864**	184,952
	5,779,916	5,663,310

Revenue from contracts with customers

	2019	2018
	HK$'000	*HK$'000*
Type of customers		
PRC state-owned telecommunication operator groups	3,188,328	2,985,823
Other customers	2,591,588	2,677,487
Total revenue from contracts with customers	5,779,916	5,663,310

	2019	2018
	HK$'000	*HK$'000*
Timing of revenue recognition		
Goods transferred at a point in time	5,575,561	5,395,836
Services transferred over time	204,355	267,474
Total revenue from contracts with customers	5,779,916	5,663,310

An analysis of other income and gains is as follows:

	2019	2018
	HK$'000	*HK$'000*
Other income and gains		
Bank interest income	**16,157**	8,703
Exchange gain, net	**14,289**	12,752
Government subsidies#	**84,778**	83,759
VAT refunds*	**21,983**	13,893
Gain on disposal of items of property, plant and equipment	**752**	8,985
Gross rental income	**9,073**	15,348
Gain on equity investments designated at fair value through profit or loss	**8,486**	20,321
Gain on partial disposal of an equity investment designated at fair value though profit or loss	**1,277**	–
Others	**19,270**	6,330
	176,065	170,091

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

* During the years ended 31 December 2018 and 2019, Comba Software Technology (Guangzhou) Limited ("Comba Software"), being designated as a software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 16% (13% from April 2019). Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

4. PROFIT/(LOSS) BEFORE TAX

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

	2019 *HK$'000*	2018 *HK$'000*
Cost of inventories sold and services provided	**3,787,652**	4,018,740
Depreciation of property, plant and equipment	**158,075**	167,688
Depreciation of right-of-use assets/recognition of prepaid land lease payments	**42,777**	2,803
Amortization of computer software and technology and operating license	**27,775**	28,204
Research and development costs:		
Deferred expenditure amortized*	**58,980**	85,399
Current year expenditure	**346,785**	353,090
	405,765	438,489
Minimum lease payments under operating leases	**–**	63,464
Lease payments not included in the measurement of lease liabilities	**8,247**	–
Auditor's remuneration	**4,366**	3,899
Employee benefit expense (including directors' remuneration)^:		
Salaries and wages	**1,001,422**	985,681
Staff welfare expenses	**62,318**	75,273
Equity-settled share option expense	**27,622**	15,366
Pension scheme contributions (defined contribution schemes)#	**73,441**	85,642
	1,164,803	1,161,962
Gain on partial disposal of an equity investment designated at fair value through profit or loss	**(1,277)**	–
Net gain on equity investments designated at fair value through profit or loss	**(8,486)**	(20,321)
Write-down of inventories to net realizable value	**121,722**	69,535
Impairment of trade receivables and notes receivable	**81,984**	22,206
Provision for product warranties	**28,559**	24,402
Impairment of financial assets included in prepayments, other receivables and other assets	**37,569**	1,565
Gain on disposal of items of property, plant and equipment	**(752)**	(8,985)
Loss on disposal of intangible assets	**191**	–

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

^ Staff costs capitalized into deferred development costs amounting to HK$68,940,000 (2018: HK$109,634,000) have not been included in the employee benefit expense.

At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

5. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank loans	**94,645**	69,993
Interest on lease liabilities	**5,484**	–
Finance costs on factored trade receivables	**3,884**	3,664
	104,013	73,657

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2019	2018
	HK$'000	*HK$'000*
Current – Charge for the year		
Hong Kong	**–**	2,000
Mainland China	**157,063**	15,702
Elsewhere	**25,989**	18,217
Current – overprovision in prior year	**(9,899)**	(167)
Deferred	**(111,300)**	12,650
Total tax charge for the year	**61,853**	48,402

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

Comba Telecom Technology (Guangzhou) Limited, Comba Telecom Systems (China) Limited and Comba Software Technology (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the year ended 31 December 2019 based on the designation as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology which remained effective for the year ended 31 December 2019.

7. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Interim – HK1 cent (2018: Nil) per ordinary share	**24,792**	–
Proposed final – HK1.2 cents (2018: Nil) per ordinary share	**29,832**	–
	54,624	–

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

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

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,456,884,000 (2018: 2,423,261,000) in issue during the year.

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

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

	2019	2018
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	**151,749**	(171,384)

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculations	**2,456,884,000**	2,423,261,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**23,767,000**	–
	2,480,651,000	2,423,261,000

9. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials	**231,927**	250,696
Project materials	**53,282**	66,959
Work in progress	**45,882**	52,188
Finished goods	**559,704**	506,048
Inventories on site	**300,449**	430,940
	1,191,244	1,306,831

10. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**4,467,343**	4,601,190
Impairment	**(469,562)**	(436,595)
	3,997,781	4,164,595

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

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

	2019	2018
	HK$'000	*HK$'000*
Within 3 months	**1,655,053**	1,759,833
4 to 6 months	**463,194**	437,993
7 to 12 months	**585,223**	550,142
More than 1 year	**1,763,873**	1,853,222
	4,467,343	4,601,190
Provision for impairment	**(469,562)**	(436,595)
	3,997,781	4,164,595

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

	2019	2018
	HK$'000	*HK$'000*
At beginning of year	**436,595**	431,366
Impairment losses	**78,803**	22,206
Amount written off as uncollectible	**(40,103)**	(10,708)
Exchange realignment	**(5,733)**	(6,269)
At end of year	**469,562**	436,595

11. TRADE AND BILLS PAYABLES

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

	2019 *HK$'000*	2018 *HK$'000*
Within 3 months	**2,251,938**	2,180,906
4 to 6 months	**704,646**	865,447
7 to 12 months	**503,754**	571,499
More than 1 year	**565,730**	695,947
	4,026,068	4,313,799

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

12. INTEREST-BEARING BANK BORROWINGS

	2019 *HK$'000*	2018 *HK$'000*
Analyzed into:		
Within 1 year or on demand	**115,086**	1,624,499
In the 2nd year	**885,986**	11,381
In the 3rd to 5th years, inclusive	**645,198**	136,566
Beyond 5 years	**111,855**	227,610
	1,758,125	2,000,056

As at 31 December 2019, loans denominated in Hong Kong dollars, RMB, and EURO amounted to HK$1,389,000,000 (2018: HK$1,410,400,000), HK$369,125,000 (2018: HK$589,560,000) and Nil (2018: HK$96,000), respectively.

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

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

Bank loans as at 31 December 2019 bear interest at rates ranging from 3.5% to 5.5% (2018: from 1.1% to 5.4%) per annum.

13. 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.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

The Board has recommended the declaration of a final dividend of HK1.2 cents per share of the Company for the Current Year. The declaration of the final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting (the "AGM") of the Company.

For the purpose of determining shareholders' entitlements to the final dividend, the register of members of the Company will be closed from 4 June 2020 to 5 June 2020 (both days inclusive), during which period no transfer of shares will be registered. The record date for determination of entitlements under the final dividend will be on 5 June 2020. Shareholders whose names appear on the register of members of the Company on 5 June 2020 will be entitled to receive the final dividend. In order to qualify for the final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 3 June 2020. The dividend warrants will be despatched to the shareholders of the Company on 15 June 2020 subject to the shareholders' approval at the AGM. It is expected that a circular containing, amongst other things, the details of the AGM will be published and despatched to the shareholders of the Company on or about 28 April 2020.

ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. on 29 May 2020 at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong.

For the purpose of determining shareholders' entitlements to attend and vote at the AGM, the register of members of the Company will be closed from 26 May 2020 to 29 May 2020 (both days inclusive), during which period no transfer of shares will be registered. The record date for determination of entitlements of the shareholders to attend and vote at the AGM will be on 29 May 2020. Shareholders whose names appear on the register of members of the Company on 29 May 2020 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 May 2020. The Notice of AGM will be published on the website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the website of the Company (http://www.comba-telecom.com) in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

During the Current Year, the Group reported revenue amounting to HK$5,779,916,000 (2018: HK$5,663,310,000) for the Current Year, representing an increase of 2.1% over the year ended 31 December 2018 (the "Prior Year"). The increase was mainly attributable to the continuous reinforcement on in-depth coverage and optimization of mobile network by operators in mainland China, as well as the gradual commencement of active large-scale construction of 5G networks.

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$1,734,492,000 (2018: HK$1,682,334,000), representing an increase of 3.1% over the Prior Year, accounting for 30.0% of the Group's revenue in the Current Year, compared with 29.7% 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") significantly increased by 63.5% over the Prior Year to HK$850,561,000 (2018: HK$520,166,000), accounting for 14.7% of the Group's revenue in the Current Year, compared with 9.2% 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") decreased by 23.0% over the Prior Year to HK$603,275,000 (2018: HK$783,323,000), accounting for 10.5% of the Group's revenue in the Current Year, compared with 13.8% in the Prior Year.

During the Current Year, revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and Rail Transit Communication customers, increased by 29.8% to HK$793,941,000 (2018: HK$611,754,000) and represented 13.7% (2018: 10.8%) of the Group's revenue. Among these, revenue generated from China Tower increased by 18.6% over the Prior Year to HK$293,998,000 (2018: HK$247,913,000). Revenue generated from Rail Transit Communication customers significantly increased by 34.9% over the Prior Year to HK$205,600,000 (2018: HK$152,436,000).

On the international front, revenue generated from international customers and core equipment manufacturers decreased by 12.7% in aggregate to HK$1,641,783,000 (2018: HK$1,880,781,000) for the Current Year, accounting for 28.4% (2018: 33.2%) of the Group's revenue in the Current Year. It was mainly due to the fact that 5G deployment was not started yet while the construction of the 4G network slowed down in certain regions. However, the Group not only achieved breakthroughs in major fields and established new relationship with customers, but also strengthened its cooperation with internationally-renowned key equipment suppliers in areas of 5G networks. The Group is positive about the future prospect of its international business.

During the Current Year, revenue from ETL Company Limited ("ETL"), a middle and small-sized operator in Laos and a non-wholly-owned subsidiary of the Group, declined by 15.7% to HK$155,864,000 (2018: HK$184,952,000), accounting for 2.7% (2018: 3.3%) of the Group's revenue in the Current Year. The main reason for the decline was that a nationwide 4.5G network in Laos, built by ETL this year, was fully commercialized in the fourth quarter while it was still in the process of acquiring new customers. The Group believes that the full commercial use of 4.5G networks will improve the company's future performance and also pave the way for 5G development.

By Businesses

During the Current Year, revenue from the antennas and subsystems business slightly decreased by 1.0% over the Prior Year to HK$2,808,365,000 (2018: HK$2,837,888,000), accounting for 48.6% (2018: 50.1%) of the Group's revenue in the Current Year, and the slight decrease was mainly due to the Group's strategic gradual withdrawal from traditional radio active segment by allocating resources more efficiently for 5G new demand, such as 5G dielectric components, under the background that 5G networks gradually tap into large-scale construction.

During the Current Year, revenue from the network system business (including wireless enhancement and wireless access) grew by 8.3% over the Prior Year to HK$828,546,000 (2018: HK$765,370,000), accounting for 14.3% (2018: 13.5%) of the Group's revenue. Among these, revenue generated from the wireless access product, which is represented by the Small Cell, substantially increased by 60.4% over the Prior Year to HK$266,538,000 (2018: HK$166,137,000). The increase was mainly attributable to improved new digital indoor coverage business and the effective implementation progress of Extended Picocell's commercial use in centralized procurement by the Group. Revenue generated from the traditional wireless enhancement product dropped by 6.2% over the Prior Year to HK$562,008,000 (2018: HK$599,233,000).

During the Current Year, revenue from services increased by 2.0% over the Prior Year to HK$1,626,056,000 (2018: HK$1,594,593,000), accounting for 28.2% (2018: 28.2%) of the Group's revenue. With the development trend of application customization in the future, the management expects that the service business will develop in the scene and digital-oriented direction.

Gross Profit

During the Current Year, the Group's gross profit grew by 21.8% over the Prior Year to HK$1,776,184,000 (2018: HK$1,458,601,000). The gross profit margin was 30.7% in the Current Year (2018: 25.8%), up by 4.9 percentage points compared with the Prior Year. The gross profit margin for the Group's core products remained at a stable level, and the increase was mainly due to continuous launch of new products by the Group in order to cope with in-depth coverage and 5G new demands.

Research and Development ("R&D") Costs

During the Current Year, R&D costs decreased slightly by 1.8% over the Prior Year to HK$346,785,000 (2018: HK$353,090,000), representing 6.0% (2018: 6.2%) of the Group's revenue. As 5G enters into the stage of large-scale construction, the Group will maintain its R&D investments, continuously foster innovation, enhance the competitive edge of its existing products, and expedite the launch and commercial use of 5G products in order to capture business opportunities amidst the digitalization of the mobile telecommunications industry.

Selling and Distribution ("S&D") Expenses

During the Current Year, S&D expenses dropped by 4.7% over the Prior Year to HK$559,599,000 (2018: HK$587,040,000), representing 9.7% (2018: 10.4%) of the Group's revenue. Affected by the operating restructuring and human resource optimization of the Group, S&D expenses in the Current Year have been improved as compared with the Prior Year.

Administrative Expenses

During the Current Year, administrative expenses decreased by 7.6% over the Prior Year to HK$573,966,000 (2018: HK$621,408,000), representing 9.9% (2018: 11.0%) of the Group's revenue, which was primarily due to the fact that the operating restructuring and human resource optimization of the Group in the Prior Year achieved preliminary success.

Finance Costs

During the Current Year, finance costs increased by 41.2% over the Prior Year to HK$104,013,000 (2018: HK$73,657,000), representing 1.8% (2018: 1.3%) of the Group's revenue. The increase in finance costs was mainly due to higher interest rates on bank borrowings and the conversion of most of short-term loans to 3-Year syndicated loan in the first quarter of 2019.

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, the management will pay close attention to the latest trends in the financing market, changes in interest rates and financial policies, and arrange the most appropriate financing for the Group, in order to improve the structure of its debts and thereby reduce its financing costs.

In addition, the management has leveraged the difference of interest and foreign exchange rate among different countries to minimize finance costs. As of 31 December 2019, gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, was 15.7% compared with gearing ratio of 17.7% as of 31 December 2018.

Other Expenses

During the Current Year, other expenses increased by 64.2% over the Prior Year to HK$237,211,000 (2018: HK$144,431,000), representing 4.1% (2018: 2.6%) of the Group's revenue. The increase in other expenses was mainly due to the increase in trade and other account receivables provision.

Operating Profit

In summary, during the Current Year, the operating profit of the Group significantly increased by 403.7% to HK$234,688,000 (2018: operating loss of HK$77,277,000).

Tax

During the Current Year, the Group's overall taxation charge of HK$61,853,000 (2018: HK$48,402,000) comprised an income tax expense of HK$173,153,000 (2018: HK$35,752,000) and a deferred tax credit of HK$111,300,000 (2018: deferred tax charge of HK$12,650,000). The increase of overall taxation charge was mainly due to the increase in operating profit of the Group.

Details of reduced tax rates enjoyed by major operating subsidiaries are set out in Note 6 above.

Net Profit

During the Current Year, as the Group has recorded a turnaround from loss to profit, profit attributable to owners of the parent ("Net Profit") was HK$151,749,000 (2018: loss of HK$171,384,000), increased by 188.5% over the Prior Year.

During the Current Year, the net loss from ETL was HK$164,654,000 with the net loss from ETL in the Prior Year of HK$63,366,000.

Dividend

In view of the Group's operating results for the Current Year and its long-term future development and flexibility of its financial position, the Board recommends the payment of 2019 final dividend of HK 1.2 cents (2018: Nil) per ordinary share. The total payout ratio, on the basis of basic earnings per share, is 35.6% (2018: N/A).

PROSPECTS

2019 was a year when global 5G construction began, with multiple countries and areas all over the world gradually commenced 5G commercial deployment. The Ministry of Industry and Information Technology of the People's Republic of China officially granted 5G licenses to the major operators in China in June 2019, symbolizing that Mainland China is officially entering into the 5G commercialization era.

With the growing construction of 5G infrastructure, the overall industry development momentum is on the rise. Looking forward, the demand for large-scale macro station construction and antenna location spaces re-farming will bring great opportunities for base station antenna. Meanwhile, the demand for indoor capacity coverage, especially for scenarios with hotspot coverage, will bring enormous business opportunities for small cell products and customized antennas. The 5G+ application development will also present new opportunities for integration of telecom equipment manufacturers and industrial applications. The Group will capitalize on its R&D for new 5G demands.

Products and Solutions

Antenna and Base Station Subsystems

Leveraging its extensive experience in mobile network construction and its technology in lightweight multi-system multi-mode shared antenna over the years, the Group has a long-established leading position in the base station antenna market and has been named as a "Global Tier 1 Base Station Antenna Supplier" for eight consecutive years by industry analyst firm EJL Wireless Research, as well as been ranked in Top 2 of global shipments for six consecutive years. The Group has been widely recognized by numerous domestic and overseas operators, equipment manufacturers and integrators, with its antenna business presence in more than 100 countries and regions globally.

The Group has been actively engaged in R&D for antenna products. Following the developing directions of small and lightweight, multi-frequency and multi-mode, the Group developed various 5G base station antenna solutions such as active 5G Massive MIMO antennas, ultra-multi-frequency antennas, TDD+FDD hybrid antennas and the newly developed hybrid beam antennas, helping operators to accelerate the construction of 5G networks.

During the Current Year, the Group has delivered the steady supply of 5G antennas for the frequencies under 6 Gigahertz (sub6G). With the evolution of 5G network technology, the dielectric filter is a key component and a main solution for the radio active units. After years of R&D and deployment, the Group has made a breakthrough in the 5G medium-and-high frequency base station dielectric filter and possessed in-house intellectual properties, laying a solid foundation for the Group's 5G Massive MIMO products.

Moreover, targeting "5G broad indoor coverage" especially for locations with hotspot coverage, the Group also introduced customized solutions such as, the new building coverage antenna addressing the demand of residential areas coverage, the 5G wall-mounted antenna addressing the demand of tunnel coverage, and the 3D beam forming antenna addressing the coverage demand from large venues, transportation hubs and others. These solutions passed successful trials and part of the products were in production. With the development of 5G indoor coverage, the importance of the new customized antennas will increase in the future.

Network Product System Solutions

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

5G no longer only pursues the speed experience but places greater emphasis on meeting the needs for various scenarios such as internet of things, edge computing and industrial applications. Meanwhile, most 5G business scenarios will take place indoor. As a result of the poor indoor signal coverage due to 5G high frequency, it will be difficult for the traditional indoor coverage network products to meet new 5G indoor requirements. At the same time, small cells with positioning of "heat absorption" and "blind area coverage" will also become increasingly efficient in 5G indoor network coverage.

In collaboration with China Mobile Research Institute and Intel, the Group debuted 5G Cloud Small Cell, the first 5G open small cell for commercial use in the industry ever. The 5G Cloud Small Cell features high cost performance, open platform and cloud-network integration. It can also be tailor-made to meet the needs in various indoor scenarios through the decoupling of software and hardware, as well as integrated mobile edge computing, enabling more extensive applications of vertical industries. Meanwhile, the 5G Cloud Small Cell supports both NSA and SA structures, and is therefore capable of scale commercial use in 5G indoor coverage field.

The Group formulated long-term strategy for network products, actively explored an integration of 5G digital indoor coverage solutions and the vertical industry, and has achieved great milestone in the field of 5G industrial application such as intelligent manufacturing. For instance, it collaborated with China Mobile Guangzhou Branch to establish a demonstration park for 5G+ industrial internet application and develop application for 5G Cloud Small Cell in industrial manufacturing system. The Group will continuously invest in R&D on integration of 5G indoor coverage with industrial internet application, and further enhance the 5G+ industrial use.

MARKET EXPANSION

Operator Business in Mainland China

Three major operators have officially commenced the large-scale deployment of 5G mobile network. The construction and deployment of 5G network has entered a key phase, especially the development of "5G+" application, the enhancement of people's quality of life as well as the industrial application reform. At the same time, driven by the increasing communication traffic, the policies of "speed upgrade and tariff reduction", "number port-in" and "unlimited mobile data" user package, operators need to optimize the coverage depth and eliminate blind spots of 4G to further improve user experience, mobile network quality and ensure mobile users stickiness.

The Group continued to enhance its operational efficiency and marketing strategies. The Group has strengthened its deep cooperation with operators continuously and provided them with comprehensive solutions including customized base station antenna solutions and indoor coverage solutions, by leveraging its competitive edges in R&D of technology over the years.

International Business

The Group's international marketing platform explored customer demands for business opportunities. Capitalizing on its advantages in both product and technology, the Group has achieved breakthrough in terms of cooperation with major mobile operators in key areas, and maintained sound cooperation with leading telecom core equipment suppliers in the field of 5G internationally. At the same time, the Group will continue to meet the demands for the region in the post 4G development cycle.

The Group continued to strengthen R&D as well as to develop target markets, and achieved certain milestones. For instance, it provided a high-density wireless solution for the major large-scale venues in Brazil, deployed indoor wireless network for YAS Mall, the largest shopping center of an international operator in Abu Dhabi and launched 4G and 5G Open vRAN solution in collaboration with Parallel Wireless, a vRAN supplier, helping global mobile network operators to reduce network cost.

Looking forward, the Group will capture the opportunity of 5G development and continue to strengthen the cooperation with global leading operators and core equipment suppliers to provide quality 5G application solutions for global customers. Meanwhile, the Group will proactively expand the OpenRAN ecosystem, develop strategic partnership, and facilitate the implementation of commercial use.

New Business

Mobile internet and internet of things are the major development trend in the future. Three major applications for 5G, namely enhanced mobile broadband, large-scale internet of things and ultra-reliable and low latency communications, place great emphasis on meeting the needs of "person-to-person communication" and "thing-to-thing communication". Therefore, the "5G+ applications" will involve all aspects of people's daily life in the future as well as various aspects of manufacturing. The Group made explorations in new businesses such as intelligent manufacturing, and completed the delivery of smart 5G intelligent manufacturing workshop which integrated 5G technology with flexible production lines. For example, relying on 5G signals, AGV cars can obtain indoor high-precision positioning and deliver material efficiently; Together with the "Comba Intellectual Platform" edge cloud, the Group can ensure the core data security, facilitate communication between systems, and improve the digitalization process.

The Laos mobile operator ETL, which was strategically invested by the Group, has achieved full commercial use of Laos' 4.5G network in the fourth quarter of this year, laying the foundation for advancing towards 5G in the future. This new network comprises leading mobile technologies, quality user experience, and operational efficiency. With Comba's competitive advantages in network construction and technology products over the years, more synergy can be fostered.

CONCLUSION

In the past year, the 5G network construction in Mainland China has made sound progress. In 2020, the trend of 5G construction will continue, bringing both opportunities and challenges. The Group will continue to deploy new 5G technologies, and innovate and develop new 5G products in a bid to seize opportunities for 5G construction and promote the Group's business to scale new heights.

Meanwhile, sticking to the core value of "creating ideal values for customers", the Group will continue to implement refined management and boost operating efficiency and improve various operating indicators regarding the three major dimensions of revenue growth, expense control and efficiency improvement to create value for customers and making unremitting efforts to achieve the Group's operation objectives and strategic goals.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 31 December 2019, the Group had net current assets of HK$2,782,904,000. Current assets comprised inventories of HK$1,191,244,000, trade receivables of HK$3,997,781,000, notes receivable of HK$156,822,000, prepayments, other receivables and other assets of HK$790,901,000, restricted bank deposits of HK$169,179,000, and cash and cash equivalents of HK$1,867,186,000. Current liabilities comprised trade and bills payables of HK$4,026,068,000, other payables and accruals of HK$1,092,456,000, interest-bearing bank borrowings of HK$115,086,000, tax payable of HK$82,835,000 and provisions for product warranties of HK$73,764,000.

The average receivable turnover for the Current Year was 258 days compared to 280 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain customers which are granted with longer credit term. The balances also include retention money, which is for assurance that the product and service comply with agreed-upon specifications, of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Year was 380 days compared to 347 days for the Prior Year. The average inventory turnover for the Current Year was 114 days compared to 116 days for the Prior Year.

As at 31 December 2019, the Group's cash and bank balances were mainly denominated in RMB, HK$ and US$ while the Group's bank borrowings were mainly denominated in RMB and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a 3-year term loan facility agreement with certain financial institutions with the principal amount of HK$980,000,000 on 30 January 2019 which was further increased to HK$1,458,000,000 by way of accession. Details of bank borrowings are set out in note 12 above.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. In view of the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rates and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 31 December 2019, 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 15.7% as at 31 December 2019 (31 December 2018: 17.7%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

RESTRICTED BANK DEPOSITS

Deposit balances of HK$240,711,000 (31 December 2018: HK$285,507,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had contingent liabilities of HK$442,892,000 (31 December 2018: HK$289,341,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had approximately 6,000 staffs, out of which 1,300 staffs from ETL (31 December 2018: 6,700 staffs, out of which 1,400 staffs from ETL). The total staff costs, excluding capitalized development cost, for the Current Year were HK$1,164,803,000 (31 December 2018: HK$1,161,962,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal and regulatory requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, legal and regulatory requirements and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staffs in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements in such jurisdictions. The Group also provides training to the staffs to improve their skills and develop their respective expertise. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management of the Group.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board reviewed the 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 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and considered that, during the Current Year, the Company has complied with all the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

PUBLICATION OF ANNUAL REPORT

2019 Annual Report containing all information required by the Listing Rules will be despatched to shareholders of the Company and published on the website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the website of the Company (http://www.comba-telecom.com) in due course.

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

Hong Kong, 19 March 2020

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