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Comba

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

京信通信系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Hong Kong Stock Code: 2342)

(Singapore Stock Code: STC)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Revenue increased by 8.4% to HK\$6.36 billion
- Gross profit increased by 31.7% to HK\$1.87 billion and gross profit margin increased by 5.2% points to 29.4%
- Profit before tax HK\$297 million (2021: loss before tax HK\$656 million)
- Profit attributable to shareholders HK\$190 million (2021: loss attributable to shareholders HK\$592 million)
- Final dividend of HK1.1 cents per share (2021: Nil)

RESULTS

The board (the “Board”) of directors (the “Director(s)”) 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 2022 (the “Current Year”), together with the comparative figures for the same period in 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*Year ended 31 December 2022*

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
REVENUE	4	6,364,677	5,869,666
Cost of sales		<u>(4,491,146)</u>	<u>(4,446,835)</u>
Gross profit		1,873,531	1,422,831
Other income and gains	4	236,520	193,320
Research and development expenses	5	(515,798)	(608,940)
Selling and distribution expenses		(565,904)	(597,546)
Administrative expenses		(493,411)	(601,073)
Other expenses		(183,504)	(428,256)
Finance costs	6	(60,198)	(43,761)
Share of profit of a joint venture		<u>5,818</u>	<u>6,968</u>
PROFIT/(LOSS) BEFORE TAX	5	297,054	(656,457)
Income tax expense	7	<u>(153,558)</u>	<u>(16,100)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>143,496</u>	<u>(672,557)</u>
Attributable to:			
Owners of the parent		190,237	(592,567)
Non-controlling interests		<u>(46,741)</u>	<u>(79,990)</u>
		<u>143,496</u>	<u>(672,557)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		HK6.84 cents	HK(21.43) cents
Diluted		<u>HK6.84 cents</u>	<u>HK(21.43) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2022*

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	143,496	(672,557)
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(376,990)</u>	<u>127,360</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(376,990)</u>	<u>127,360</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value, net of tax	<u>14,146</u>	<u>16,960</u>
Gains on property revaluation, net of tax	<u>–</u>	<u>35,787</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>14,146</u>	<u>52,747</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	(362,844)	180,107
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(219,348)	(492,450)
Attributable to:		
Owners of the parent	<u>(65,026)</u>	<u>(419,601)</u>
Non-controlling interests	<u>(154,322)</u>	<u>(72,849)</u>
	(219,348)	(492,450)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,188,351	1,347,683
Right-of-use assets		191,400	216,989
Goodwill		242,773	242,773
Deferred tax assets		59,584	225,614
Intangible assets		726,145	806,267
Equity investments designated at fair value through other comprehensive income		76,314	62,813
Equity investments designated at fair value through profit or loss		89,871	90,534
Restricted bank deposits		27,078	26,195
Time deposits		350,861	257,405
Investment in a joint venture		6,390	18,354
		<hr/>	<hr/>
Total non-current assets		2,958,767	3,294,627
CURRENT ASSETS			
Inventories	10	1,447,911	1,356,335
Trade receivables	11	3,862,632	4,129,136
Notes receivable		112,574	97,109
Prepayments, other receivables and other assets		430,572	626,994
Financial assets at fair value through profit or loss		17,500	3,102
Restricted bank deposits		101,056	107,900
Time deposits		113,181	245,148
Cash and cash equivalents		1,531,669	1,652,228
		<hr/>	<hr/>
Total current assets		7,617,095	8,217,952
CURRENT LIABILITIES			
Trade and bills payables	12	4,051,703	4,544,849
Other payables and accruals		571,506	623,223
Interest-bearing bank borrowings	13	751,993	644,739
Tax payable		71,407	73,527
Provision for product warranties		70,284	75,290
		<hr/>	<hr/>
Total current liabilities		5,516,893	5,961,628
NET CURRENT ASSETS			
		2,100,202	2,256,324
TOTAL ASSETS LESS CURRENT LIABILITIES			
		5,058,969	5,550,951

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	<i>13</i>	590,000	800,000
Deferred government grant		15,856	–
Deferred tax liabilities		167,154	164,063
Lease liabilities		47,205	60,300
Redeemable preferred shares in a subsidiary		274,028	342,771
		<hr/>	<hr/>
Total non-current liabilities		1,094,243	1,367,134
		<hr/>	<hr/>
Net assets		3,964,726	4,183,817
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		278,020	277,892
Treasury shares		(22,818)	(22,818)
Reserves		3,473,103	3,519,642
		<hr/>	<hr/>
		3,728,305	3,774,716
		<hr/>	<hr/>
Non-controlling interests		236,421	409,101
		<hr/>	<hr/>
Total equity		3,964,726	4,183,817
		<hr/>	<hr/>

NOTES

31 December 2022

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

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment, the provision of related engineering services and the provision of operator telecommunication services and their value added services.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2022. 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).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting (the “Conceptual Framework”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{2,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i> ^{2,4}
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

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

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

3. OPERATING SEGMENT INFORMATION

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

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

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

Year ended 31 December 2022	Wireless telecommunications network system equipment and services <i>HK\$'000</i>	Operator telecommunication services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	6,204,028	160,649	6,364,677
Profit/(loss) before tax	446,398	(149,344)	297,054
Segment assets Elimination	9,897,386	1,209,873	11,107,259 (531,397)
Total assets			10,575,862
Segment liabilities Elimination	6,395,152	747,381	7,142,533 (531,397)
Total liabilities			6,611,136
Year ended 31 December 2021	Wireless telecommunications network system equipment and services <i>HK\$'000</i>	Operator telecommunication services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	5,658,244	211,422	5,869,666
Loss before tax	(460,555)	(195,902)	(656,457)
Segment assets Elimination	10,762,215	1,546,954	12,309,169 (796,590)
Total assets			11,512,579
Segment liabilities Elimination	7,138,576	986,776	8,125,352 (796,590)
Total liabilities			7,328,762

Geographical information

(a) Revenue from external customers

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Mainland China	4,435,654	4,061,715
Other countries/areas in Asia Pacific	803,207	892,888
Americas	488,484	593,214
European Union	526,713	263,916
Middle East	56,904	28,130
Other countries	53,715	29,803
	<u>6,364,677</u>	<u>5,869,666</u>

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

(b) Non-current assets

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Mainland China	1,806,171	1,758,979
Lao People's Democratic Republic	1,092,152	1,490,117
Other countries/regions	60,444	45,531
	<u>2,958,767</u>	<u>3,294,627</u>

Information about major customers

Revenue of approximately HK\$1,525,814,000 (2021: HK\$1,520,754,000), HK\$1,011,757,000 (2021: HK\$493,095,000) and HK\$406,004,000 (2021: HK\$577,141,000) was derived from 3 major customers, which accounted for 24.0% (2021: 25.9%), 15.9% (2021: 8.4%) and 6.4% (2021: 9.8%) of the total revenue of the Group, respectively.

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	6,204,028	5,658,244
Provision of operator telecommunication services	160,649	211,422
	<u>6,364,677</u>	<u>5,869,666</u>
Revenue from contracts with customers		
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Types of customers		
PRC state-owned telecommunication operator groups	3,348,528	2,590,990
Other customers	3,016,149	3,278,676
	<u>6,364,677</u>	<u>5,869,666</u>
Total revenue from contracts with customers	<u>6,364,677</u>	<u>5,869,666</u>
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Timing of revenue recognition		
Goods transferred at a point in time	6,204,028	5,658,244
Services transferred over time	160,649	211,422
	<u>6,364,677</u>	<u>5,869,666</u>
Total revenue from contracts with customers	<u>6,364,677</u>	<u>5,869,666</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period	71,657	75,472

An analysis of other income and gains is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other income and gains		
Bank interest income	41,115	28,685
Government subsidies [#]	68,972	72,270
Exchange gain, net	37,808	–
Fair value gains on redeemable preferred shares in a subsidiary	43,742	–
VAT refunds	11,244	6,377
Written off of trade payables	12,706	–
Gain on disposal of items of property, plant and equipment	–	7,117
Gross rental income	9,984	14,004
Penalty income	2,710	3,563
Scrapped and recycled item sales	1,344	1,785
Gain on equity investments designated at fair value through profit or loss	633	27,564
Technical services income	–	25,563
Others	6,262	6,392
	236,520	193,320

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

5. PROFIT/(LOSS) BEFORE TAX

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories sold and services provided	4,428,359	4,195,798
Depreciation of property, plant and equipment ^{###}	175,934	213,701
Depreciation of right-of-use assets	53,102	45,472
Amortization of computer software and technology and operating license ^{##}	39,057	30,946
Research and development expenses:		
Deferred expenditure amortized	167,524	172,397
Current year expenditure	348,274	436,543
	<u>515,798</u>	<u>608,940</u>
Lease payments not included in the measurement of lease liabilities	2,669	12,778
Auditor's remuneration	5,229	3,571
Employee benefit expense (including directors' remuneration) [^] :		
Salaries and wages	946,649	1,055,182
Staff welfare expenses	37,152	44,373
Equity-settled share option expense	16,718	24,578
Awarded share expenses	28,173	27,667
Pension scheme contributions (defined contribution schemes)*	80,360	70,013
	<u>1,109,052</u>	<u>1,221,813</u>
Net gain on equity investments designated at fair value through profit or loss	(633)	(27,564)
Loss on fair value change of financial assets at fair value through profit or loss ^{###}	3,924	4,154
Exchange (gain)/loss, net [#]	(37,808)	20,860
Write-down of inventories to net realizable value	38,538	231,617
Impairment of trade receivables and notes receivable ^{###}	42,548	257,317
Provision for product warranties	18,241	20,358
Impairment/(reversal) of financial assets included in prepayments, other receivables and other assets ^{###}	17,776	(4,219)
Loss/(gain) on disposal of items of property, plant and equipment	6,892	(7,117)
(Gain)/loss on fair value change of redeemable preferred shares in a subsidiary ^{###}	(43,742)	6,509
Impairment of goodwill ^{###}	–	10,304
	<u>–</u>	<u>–</u>

- * At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: Nil).
- ^ Staff costs capitalized into deferred development costs amounting to HK\$95,067,000 (2021: HK\$68,343,000) have not been included in the employee benefit expense.
- # Net exchange loss and net exchange gain are included in “Administrative expenses” and “Other income and gains” in the consolidated statement of profit or loss, respectively.
- ## The depreciation of certain property, plant and equipment and amortization of operating license amounting to HK\$86,870,000 (2021: HK\$127,803,000) and HK\$23,322,000 (2021: HK\$23,322,000) are included in “Other expenses” in the consolidated statement of profit or loss.
- ### These items are included in “Other expenses” and “Other income and gains” in the consolidated statement of profit or loss, respectively.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank loans	57,311	40,395
Interest on lease liabilities	2,884	3,264
Finance costs on factored trade receivables	3	102
	<u>60,198</u>	<u>43,761</u>

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2021:16.5%) 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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current – Charge for the year		
Hong Kong	1,060	–
Mainland China	8,793	9,044
Elsewhere	14,933	10,817
Current – (overprovision)/underprovision in prior years	(18,936)	51
Deferred	147,708	(3,812)
	<u>153,558</u>	<u>16,100</u>
Total tax charge for the year		

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

8. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interim – HK1 cent (2021: Nil) per ordinary share	27,795	–
Proposed final – HK1.1 cent (2021: Nil) per ordinary share	<u>30,582</u>	<u>–</u>
	<u>58,377</u>	<u>–</u>

9. 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 2,779,557,000 (2021: 2,764,908,000) 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/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	<u>190,237</u>	<u>(592,567)</u>
	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculations	<u>2,779,557,000</u>	<u>2,764,908,000</u>
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>457,000</u>	<u>–</u>
	<u>2,780,014,000</u>	<u>2,764,908,000</u>

10. INVENTORIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Raw materials	346,342	395,762
Project materials	26,659	54,534
Work in progress	71,661	58,570
Finished goods	483,697	493,566
Inventories on site	<u>519,552</u>	<u>353,903</u>
	<u>1,447,911</u>	<u>1,356,335</u>

11. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	4,551,699	4,852,632
Impairment	<u>(689,067)</u>	<u>(723,496)</u>
	<u>3,862,632</u>	<u>4,129,136</u>

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

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	1,543,641	2,137,743
4 to 6 months	689,000	533,755
7 to 12 months	892,322	609,352
More than 1 year	<u>1,426,736</u>	<u>1,571,782</u>
	4,551,699	4,852,632
Provision for impairment	<u>(689,067)</u>	<u>(723,496)</u>
	<u>3,862,632</u>	<u>4,129,136</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At beginning of year	723,496	548,872
Impairment losses	41,734	255,279
Amount written off as uncollectible	(28,633)	(95,721)
Exchange realignment	<u>(47,530)</u>	<u>15,066</u>
	689,067	723,496
At end of year	<u>689,067</u>	<u>723,496</u>

12. TRADE AND BILLS PAYABLES

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	1,552,379	2,429,952
4 to 6 months	958,155	695,099
7 to 12 months	631,437	576,699
More than 1 year	909,732	843,099
	<u>4,051,703</u>	<u>4,544,849</u>

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

13. INTEREST-BEARING BANK BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Analyzed into:		
Bank loans repayable		
Within 1 year or on demand	751,993	644,739
In the 2nd year	590,000	160,000
In the 3rd to 5th years, inclusive	–	640,000
	<u>1,341,993</u>	<u>1,444,739</u>

As at 31 December 2022, loans denominated in Hong Kong dollars and RMB amounted to HK\$1,085,002,000 (2021: HK\$1,255,975,000) and HK\$256,991,000 (2021: HK\$188,764,000), respectively.

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

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

As at 31 December 2022 and 2021, certain bank loans carried floating rates at Hong Kong Interbank Offered Rate ("HIBOR") plus a margin per annum. Bank loans as at 31 December 2022 bear interest at rates ranging from 1.45% to 7.09% (2021: from 1.45% to 3.80%) per annum.

14. EVENTS AFTER THE REPORTING PERIOD

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

FINAL DIVIDEND

The Board has recommended the declaration of a final dividend of HK1.1 cents per share (the “Share(s)”) of the Company for the Current Year. The declaration of the final dividend is subject to the approval by the shareholders (the “Shareholders”) of the Company at the forthcoming annual general meeting (the “AGM”) of the Company.

For Hong Kong Shareholders

For the purpose of determining Hong Kong Shareholders’ entitlements to the final dividend, the register of members of the Company in Hong Kong will be closed from 8 June 2023 to 9 June 2023 (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 9 June 2023. Hong Kong Shareholders whose names appear on the register of members of the Company in Hong Kong on 9 June 2023 will be entitled to receive the final dividend. In order to qualify for the final dividend, 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. (Hong Kong time) on 7 June 2023. Cheques for the payment of dividend will be despatched to the Hong Kong Shareholders on 19 June 2023.

For Singapore Shareholders

In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Singapore share transfer agent, In.Corp Corporate Services Pte. Ltd. at 30 Cecil Street, #19-08 Prudential Tower, Singapore 049712 for registration no later than 5:00 p.m. (Singapore time) on 7 June 2023.

For the purpose of determination of the Shareholders registered under the Company’s register of members in Hong Kong and register of members in Singapore for receiving the final dividend in Hong Kong dollars or Singapore dollars respectively, any removal of the Shares between the Company’s register of members in Hong Kong and register of members in Singapore has to be made by the Shareholders no later than 4:00 p.m. (both Hong Kong and Singapore times) on 24 May 2023.

The exchange rate for converting Hong Kong dollars into Singapore dollars for the purpose of the final dividend payment in Singapore dollars to Singapore Shareholders will be fixed by the Company in due course.

ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. on 22 May 2023 at Unit 611, Building 8W, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

For Hong Kong Shareholders

For the purpose of determining Hong Kong Shareholders' entitlements to attend and vote at the AGM, the register of members of the Company in Hong Kong will be closed from 17 May 2023 to 22 May 2023 (both days inclusive), during which period no transfer of Shares will be registered. The record date for determination of entitlements of the Hong Kong Shareholders to attend and vote at the AGM will be on 22 May 2023. Hong Kong Shareholders whose names appear on the register of members of the Company in Hong Kong on 22 May 2023 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. (Hong Kong time) on 16 May 2023.

For Singapore Shareholders

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 Singapore share transfer agent, In.Corp Corporate Services Pte. Ltd. at 30 Cecil Street, #19-08 Prudential Tower, Singapore 049712 for registration no later than 5:00 p.m. (Singapore time) on 16 May 2023.

For the purpose of determination of the Shareholders registered under the Company's register of members in Hong Kong and register of members in Singapore for submission of proxy forms to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited or Singapore share transfer agent, In.Corp Corporate Services Pte. Ltd. respectively, any removal of the Shares between the Company's register of members in Hong Kong and register of members in Singapore has to be made by the Shareholders no later than 4:00 p.m. (both Hong Kong and Singapore times) on 4 May 2023.

The notice of AGM will be published on the websites of each of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>), The Singapore Exchange Securities Trading Limited (<https://www.sgx.com/securities/company-announcements>) and the Company (<http://www.comba-telecom.com>) in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

REVENUE

The Group reported revenue amounting to HK\$6,364,677,000 (2021: HK\$5,869,666,000) for the Current Year, representing an increase of 8.4% over the year ended 31 December 2021 (the “Prior Year”). The increase in revenue was mainly attributable to the Group’s remarkable success in tenders for centralized procurement of various antenna products in Mainland China and the completion of international tender projects of antenna products as scheduled, which contributed to a significant growth in the number of orders and achieved record high of base station antenna products during the Current Year.

By Customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as “China Mobile Group”) was HK\$1,525,814,000 (2021: HK\$1,520,754,000), representing an increase of 0.3% over the Prior Year, accounting for 24.0% of the Group’s revenue in the Current Year, compared with 25.9% in the Prior Year.

During the Current Year, revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as “China Unicom Group”) increased by 105.2% over the Prior Year to HK\$1,011,757,000 (2021: HK\$493,095,000), accounting for 15.9% of the Group’s revenue in the Current Year, compared with 8.4% in the Prior Year.

During the Current Year, revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as “China Telecom Group”) decreased by 29.7% over the Prior Year to HK\$406,004,000 (2021: HK\$577,141,000), accounting for 6.4% of the Group’s revenue in the Current Year, compared with 9.8% in the Prior Year.

During the Current Year, revenue from China Tower Corporation Limited (“China Tower”) decreased by 5.0% to HK\$404,953,000 (2021: HK\$426,244,000) as compared with the Prior Year, and represented 6.4% of the Group’s revenue in the Current Year, compared with 7.3% in the Prior Year.

During the Current Year, revenue from other domestic customers increased by 4.4% to HK\$671,615,000 (2021: HK\$643,514,000) and represented 10.6% (2021: 11.0%) of the Group’s revenue.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 9.3% in aggregate to HK\$2,183,885,000 (2021: HK\$1,997,497,000) for the Current Year, accounting for 34.3% (2021: 34.0%) of the Group’s revenue in the Current Year. The main reason for the increase was the expansion of the Group’s overseas business during the Current Year, in particular, satisfactory results have been achieved in the sales of base station antenna products.

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, dropped by 24.0% to HK\$160,649,000 (2021: HK\$211,422,000), accounting for 2.5% (2021: 3.6%) of the Group’s revenue in the Current Year. The decrease in revenue was mainly due to the depreciation in the exchange rate for Lao Kip against Hong Kong dollars of approximately 30% during the Current Year.

By Businesses

During the Current Year, revenue from the base station antennas and subsystems business increased by 25.8% over the Prior Year to HK\$3,038,957,000 (2021: HK\$2,416,328,000), accounting for 47.8% (2021: 41.2%) of the Group’s revenue in the Current Year. The increase in revenue was mainly attributable to the fact that the Group acquired the centralized procurement projects of various 5G antenna products of major Chinese telecom operators and completed the phasal launch and delivery of the international tender projects of antenna products as scheduled, which contributed to a significant growth in the number of orders of base station antenna products as compared to the Prior Year.

During the Current Year, revenue generated from the network system business decreased by 15.9% over the Prior Year to HK\$1,050,111,000 (2021: HK\$1,248,949,000), accounting for 16.5% (2021: 21.3%) of the Group’s revenue. The decrease in revenue was mainly attributable to the delay in the launch and implementation of centralized procurement projects for 5G extended small cells by major Mainland China telecom operators due to the COVID-19 pandemic, as well as the effect of discontinuation by the Group voluntarily of its rail transit integration business with lower gross profit so as to focus on projects with higher quality and control costs. The management expects that with the centralized procurement of related projects commencing and delivering in 2023, its network system product business will thrive in the future.

During the Current Year, revenue from services increased by 3.1% over the Prior Year to HK\$1,756,437,000 (2021: HK\$1,704,335,000), accounting for 27.7% (2021: 29.0%) of the Group’s revenue. This increase in revenue was mainly due to the Group’s focus on investing resources in projects with higher revenue and gross profit margin during the Current Year in line with its strategy to focus on construction projects of higher quality.

GROSS PROFIT

During the Current Year, the Group’s gross profit increased by 31.7% to HK\$1,873,531,000 (2021: HK\$1,422,831,000) as compared with the Prior Year. The gross profit margin was 29.4% in the Current Year (2021: 24.2%), up by 5.2 percentage points as compared with the Prior Year. The increase in gross profit and gross profit margin was mainly benefitted from the optimization of revenue structure of the Group’s products during the Current Year with increased revenue from core products yielding higher gross profit and hence achieving economies of scale, coupled with the reduction in costs of production as a result of the optimization of the production system through research and development in design.

RESEARCH AND DEVELOPMENT (“R&D”) EXPENSES

During the Current Year, R&D expenses decreased by 15.3% over the Prior Year to HK\$515,798,000 (2021: HK\$608,940,000), representing 8.1% (2021: 10.4%) of the Group’s revenue. The Group has successfully reduced the R&D expenses to a reasonable percentage of revenue for the Current Year. As 5G technology enters the stage of in-depth development, the prospects of new application scenarios and models are promising. In order to sharpen the competitiveness of its new 5G products, there is a strong need for the Group to promote innovation continuously and make successive 5G-related R&D investments 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 decreased by 5.3% over the Prior Year to HK\$565,904,000 (2021: HK\$597,546,000), representing 8.9% (2021: 10.2%) of the Group’s revenue. The decrease in S&D expenses was mainly due to the Group’s strategy of upgrading its business expansion to focus on more profitable projects, thereby making its investment in resources more cost-effective.

ADMINISTRATIVE EXPENSES

During the Current Year, administrative expenses decreased significantly by 17.9% over the Prior Year to HK\$493,411,000 (2021: HK\$601,073,000), representing 7.8% (2021: 10.2%) of the Group’s revenue. The decrease in administrative expenses mainly benefited from the strategy of optimizing the Group’s organizational management structure on an ongoing basis, which enhanced the operational efficiency of the Company.

FINANCE COSTS

During the Current Year, finance costs increased by 37.6% to HK\$60,198,000 (2021: HK\$43,761,000) as compared with the Prior Year, representing 0.9% (2021: 0.7%) of the Group’s revenue. The increase in finance costs was mainly attributable to the increase in interests as a result of the market interest rate hike during the Current Year.

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

In addition, the management has leveraged the difference between interest rate and foreign exchange rate among different countries to minimize finance costs. As at 31 December 2022, the gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, was 12.7% compared with the gearing ratio of 12.5% as at 31 December 2021.

OTHER EXPENSES

During the Current Year, other expenses decreased significantly by 57.2% over the Prior Year to HK\$183,504,000 (2021: HK\$428,256,000), representing 2.9% (2021: 7.3%) of the Group's revenue. The significant decrease in other expenses was mainly due to the decrease in impairment of receivables of the Group during the Current Year.

TAX

During the Current Year, the Group's overall taxation charge amounted to HK\$153,558,000 (2021: HK\$16,100,000), which comprised an income tax expense of HK\$5,850,000 (2021: HK\$19,912,000) and a deferred income tax expense of HK\$147,708,000 (2021: deferred tax credit of HK\$3,812,000). The increase in overall taxation charge was mainly due to the decrease of deferred tax assets as sufficient profits would not be able to be generated in the foreseeable future to utilize those tax losses.

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

NET PROFIT/LOSS

In summary, due to the significant increases in revenue and gross profit of the Group for the Current Year, as well as the reduction in the operating expenses ratio resulting from effective cost and expenses control measures implemented by the Group, overall efficiency has substantially increased; and the profit attributable to owners of the parent of the Group amounted to HK\$190,237,000 (loss attributable to owners of the parent of the Group in 2021: HK\$592,567,000).

During the Current Year, the EBITDA from ETL (51% owned subsidiary of the Group) was HK\$122,000 while the EBITDA from ETL in the Prior Year was HK\$34,627,000.

DIVIDEND

Given the Group's operating results in the Current Year and considering its long-term future development and the interests of the Shareholders, particularly those of minority Shareholders, the Board proposes the payment of a final dividend for the Current Year of HK\$1.1 cent per Share (2021: nil). Together with the interim dividend of HK\$1.0 cent per Share (2021 interim: nil), the total dividend for the Current Year may amount to HK\$2.1 cent per Share (2021: nil). The total dividend payout ratio, calculated on the basis of the total dividend proposed for the Current Year as divided by basic earnings per Share, is 30.7% (2021: N/A).

The relevant resolution(s) for approving the payment of the final dividend will be proposed at the AGM to be held on 22 May 2023 and if duly passed by Shareholders, the cheques for the payment of dividend will be despatched on 19 June 2023.

PROSPECTS

In 2023, while various countries and regions around the world improve their 5G infrastructure gradually, the three major telecom operators in China are actively pushing forward the strategy of shifting the focus of the development of fundamental networks from extensive coverage to in-depth coverage. As one of the Group's core features is the provision of scenario-based and highly cost effective solutions, we believe that the development of in-depth coverage by the operators will bring about more business opportunities for the Group, enabling the Group to cater to the demands of different customers and firmly seize the opportunities arising from the development of 5G networks by the operators.

Products and Solutions

Base Station Antenna and Subsystems

Leveraging its extensive experience in mobile telecommunication network construction and its superior technology in integrating and miniaturising multifrequency and multi-system convergent antennae developed over many years, the Group has long enjoyed a leadership position in the base station antenna market. Widely recognized by numerous domestic and overseas telecommunication network operators, equipment manufacturers and integrators, its antenna business has a presence in more than 100 countries and regions globally.

Targeting the demands for low-carbon and environmental protection around the world and with a view to effectively lower the operation costs of operators, the Group has launched the new generation of “green antenna solution” through research, development and design of innovative materials, process and production modes to support application scenarios of green and low-carbon network construction, including compacity and wide coverage, as well as coverage in cities along the high speed railway and sea routes. The innovative low-loss high-efficiency low-carbon green antenna (Helifeed™) adopts the industry's first FFTP design concept and product structure and introduces advanced coating processes and new environmental materials of antenna radome. Operators are expected to be able to save around 23 to 34 million kWh of electricity annually for every ten-thousand base stations, representing an 13,000 to 20,000-tonne reduction in carbon emissions, which effectively realised the goals of carbon emission reduction and helped operators to reduce their operating expenses.

Network Product System Solutions

Comba Network Systems Company Limited (“Comba Network”), an indirect subsidiary of the Company, principally engages in the manufacture and sales of wireless telecommunications network system equipment and the provision of related comprehensive solutions. It currently focuses on the R&D, manufacture and sales of network system products, including base station products, extended coverage products (DAS and repeaters) and Open RAN products, which are able to provide full-scenario, highly cost-efficient communication and information solutions and help constantly improve the network quality and optimize network indicators for our customers. In addition, the Company provided total solutions of 5G basic network platform for vertical industries such as smart mining, smart manufacturing, smart medical and smart education to cater to their industry needs and applications.

As a pioneer in small cells in the industry, Comba Network has conducted independent research on radio-frequency products, such as remote radio unit (RRU), and small cells for over 20 years and 15 years, respectively. It possesses all professional key and core technologies for mobile telecommunications with fully-independent R&D capabilities for and extensive experience accumulated in relation to software and hardware that meet the universal specifications for 4G/5G network access. Its diverse product mix has the necessary capacity and depth to cover all mobile telecommunication applications for high-power cells, micro cells, pico cells and femto cells. By offering in-depth coverage in cities and extensive coverage in rural areas, it provides highly cost-efficient and competitive products and solutions. Commercial trials of 5G small cell products have been commenced in more than ten provinces in the PRC. The value and advantages of our rapid and high-efficiency 5G network construction plans are well recognized by customers. Pursuant to the requirements of the national planning under the Outline of the 14th Five-Year Plan and the implementation of the rural revitalization strategy, it is expected better results will be achieved in realising 5G coverage in rural areas than offering 4G general services in rural areas, and the small cell products will gradually achieve the mass sales in 2023. Moreover, in August 2022, the Group achieved a satisfactory result in the centralized procurement of 5G pico cells for China Mobile. In addition, the Group will actively participate in the centralized procurement of small cells in the future.

In the area of Open RAN, drawing on years of experience in the design, development and deployment of radio frequency-related products for mobile telecommunications, Comba Network launched its standardized, platform-based high-powered remote radio unit (Open RAN RRU) product series that supports advanced technologies such as multi-carrier, multi-mode, high-efficiency and high-capacity technology. This product series adopts ORAN Alliance's 7.2x standard fronthaul interface connection, which establishes the inter-connection and compatibility with globally advanced base-band manufacturers. Furthermore, Comba Network has entered into strategic partnerships with industry-leading integrators. During the Current Year, Comba Network launched the industry's first dual-frequency and tri-frequency multi-mode Open RAN RRU, and introduced enhanced software functions to support NB-IoT/LTE-M and multi-mode communication, thereby leading technology innovation in the sector. With their outstanding indicators and stable functional performance, the nine high power RRUs launched by Comba Network were accredited with TIP bronze medal in the Current Year. ORAN has introduced a highly efficient technical structure comprising general-purpose processing hardware and decoupling technology for software and hardware. This enables more open applications for commercial use and satisfies the demands of operators for new network construction and maintenance of existing networks in the era of 4G/5G co-existence, hence suggesting great market potential and a continuously promising macro-environment of the industry.

In respect of 5G vertical industries, Comba Network has developed FLEx5, an intelligent computing platform that fully connects with "5G network + broad internet of things + MEP + AI" engines. By providing the underlying network and platform solution for the specific needs and applications of target industries, it aims to offer integrated smart solutions to customers, promote 5G application in vertical industries such as the industrial, mining, energy, medical and education sectors, and empower smart upgrades within the industry. In the list of "Recommended Suppliers for 5G Application Solutions (First Batch)" (5G應用解決方案供應商推薦名錄(第一批)) published by The China Academy of Information and Communications Technology and 5G Applications Industry Array (5GAIA) in 2022, Comba Network was successfully selected as a "Comprehensive Supplier for 5G Application Solutions" (5G應用解決方案綜合性供應商).

MARKET EXPANSION

Operator Business in China

China's three major telecom domestic operators will continue to build and deploy low- and medium-band networks for 5G macro cells. They will promote the sustainable development of multi-frequency spectrum, multi-mode, co-constructed and shared technology, thereby raising the technological entry barrier of their products. In response to the national low-carbon and environmental protection strategy and the low-cost network construction philosophy of the operators, the Group innovatively proposed the low-loss high-efficiency low-carbon green antenna and integrated high-power cell remote coverage solution and achieved major technological breakthroughs in product development through R&D investments. Leveraging its leading product competitiveness and comprehensive strengths in services, the Group has successfully won the bid for antenna product projects from certain major telecom operators in Mainland China and gained considerable market shares since the second half of 2021. The Group is also actively planning for centralized procurement bidding for antenna products in the future.

In respect of broad indoor coverage, large-scale construction projects have been launched by domestic operators successively and it is believed that the number of construction projects will increase in 2023. Both the Group's active indoor coverage network and equipment products and passive indoor coverage antenna and subsystem products achieved satisfactory results in centralized procurement projects. The Group will continue to give full rein to its technological R&D strengths which were developed over many years. It will also provide comprehensive support for customers of its indoor coverage business.

International Business

The Group's international marketing platform is expanding into overseas markets by actively exploring customer needs, developing target markets, creating new products and maintaining the competitiveness of its products. The Group achieved satisfactory results in its international business during the Current Year by capitalizing on its comprehensive strengths in products and technology. The Group will continue to partner with international mobile operators and world-leading manufacturers of core telecom equipment to construct networks in key regions. Aside from offering advanced 5G application solutions to customers globally, it will tap into the massive demand for 4G network construction in various countries and regions with unbalanced network development, thereby strengthening its global market position. At the same time, the Group will continue to expand the Open RAN ecosystem, seek strategic partners, explore new sales channels and conduct joint product R&D to grow its Open RAN business.

New Business

The three major applications for 5G – enhancing mobile broadband, large-scale internet of things, and ultra-reliable and low-latency communications – will transform current production modes and everyday lifestyles in the coming years. During the Current Year, the Group continued to explore areas such as “5G + vertical industry applications” and promoted the integration of 5G technology with various aspects of intelligent manufacturing, including

intelligent workshops, flexible production lines, and intelligent machines. For example, the Group made technological advances in the “5G + Mobile Robot” product series, established the AGV mainstream car model series, and initiated related pilot projects. Looking ahead, the Group will develop relevant innovative businesses in a bid to contribute to its business growth.

CONCLUSION

While consolidating its existing operation achievements, the Group will continue to strengthen its research and development capabilities, as well as improve product quality and service level. It will also continuously provide global customers with green, low-carbon and cost-effective products and services so as to satisfy their demands.

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 2022, the Group had net current assets of HK\$2,100,202,000. The current assets of the Group as at 31 December 2022 comprised inventories of HK\$1,447,911,000, trade receivables of HK\$3,862,632,000, notes receivable of HK\$112,574,000, prepayments, other receivables and other assets of HK\$430,572,000, financial assets at fair value through profit or loss of HK\$17,500,000, restricted bank deposits of HK\$101,056,000, time deposits of HK\$113,181,000 and cash and cash equivalents of HK\$1,531,669,000. The current liabilities of the Group as at 31 December 2022 comprised trade and bills payables of HK\$4,051,703,000, other payables and accruals of HK\$571,506,000, interest-bearing bank borrowings of HK\$751,993,000, tax payable of HK\$71,407,000 and provision for product warranties of HK\$70,284,000.

The average receivable (after loss allowance for impairment of trade receivables) turnover for the Current Year was 229 days compared to 257 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 longer credit term. The balance of trade receivables set out above included retention money, which was for assurance that the products and services comply with agreed-upon specifications, of approximately 10% to 20% of the total contract sum of each project, and are generally settled after final certification of products by customers, which would be performed 6 to 12 months after sale. The average payable turnover for the Current Year was 349 days compared to 352 days for the Prior Year. The average inventory turnover for the Current Year was 114 days compared to 108 days for the Prior Year.

As at 31 December 2022, the Group’s cash and bank balances were mainly denominated in Renminbi, Hong Kong dollars and United State dollars while the Group’s bank borrowings were mainly denominated in Renminbi and Hong Kong dollars. 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 entered into 3-year term loan facility agreements with certain financial institutions in 2021. Details of the Group’s bank borrowings are set out in note 13 above.

The Group's revenue and expenses, assets and liabilities are mainly denominated in Renminbi, Hong Kong dollars and United State dollars. As at 31 December 2022, the Group has outstanding non-deliverable foreign currency option contracts in respect of Renminbi and Indian Rupee with notional amount of RMB250,000,000 and US\$16,000,000 respectively (31 December 2021: non-deliverable foreign currency option contracts in respect of Renminbi, Indian Rupee and Thai Baht with notional amount of RMB175,000,000, US\$10,000,000 and US\$4,000,000 respectively).

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

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 12.7% as at 31 December 2022 (31 December 2021: 12.5%).

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Group has not conducted any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Current Year.

USE OF PROCEEDS

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

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

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

The net proceeds from the Placing as disclosed in the announcements of the Company dated 23 April 2020, 24 April 2020, 28 April 2020 and 8 May 2020 were approximately HK\$686,235,000 (after deducting the related costs and expenses) and the net subscription price of each Share was approximately HK\$2.98 (after deducting the related costs and expenses).

As at 31 December 2022, approximately HK\$105,404,000 of the net proceeds from the Placing remained unutilized. As disclosed in the Company's 2021 annual report, the previous expected timeline for utilizing the residual amount of net proceeds from the Placing and Subscription was 30 June 2023. Taking into account the continued impact of the outbreak of COVID-19 pandemic and the economic downturn experienced during the Current Year, the Board considered it prudent to focus on maintaining the existing business operations and cash flow liquidity. There was thus a delay in the Group's investment on 5G technologies R&D and production capacity expansion compared to its original plan. In this regard, an updated expected timeline for utilizing the residual amount is set out in the table below in light of the circumstances. The Group is committed to the intended use of proceeds and there is currently no plan to change the intended use.

As at 31 December 2022, details of the amount of the utilized and unutilized said net proceeds are set out as follows:

Net proceeds raised <i>HK\$'000</i>	Intended use of the net proceeds	Amounts	Amounts	Amounts	Expected timeline for utilizing the residual amount of net proceeds*
		utilized as at 31 December 2021 <i>HK\$'000</i>	utilized during the Current Year <i>HK\$'000</i>	unutilized as at 31 December 2022 <i>HK\$'000</i>	
515,390	(a) R&D of 5G small cells and OpenRAN, 5G antenna development and filter, and development of 5G+ vertical applications	310,118	150,364	54,908	by 30 June 2024
170,845	(b) expansion of production capacity, focusing on the production of 5G small cells and antenna products	104,826	15,523	50,496	by 30 June 2024
<u>686,235</u>		<u>414,944</u>	<u>165,887</u>	<u>105,404</u>	

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

RESTRICTED BANK DEPOSITS

Deposit balances of HK\$128,134,000 (31 December 2021: HK\$134,095,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group had contingent liabilities of HK\$293,460,000 (31 December 2021: HK\$276,836,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had approximately 5,300 staffs, out of which 1,300 staffs were from ETL (31 December 2021: 5,500 staffs, out of which 1,300 staffs were from ETL). The total staff costs, excluding capitalized development cost, for the Current Year were HK\$1,109,052,000 (31 December 2021: HK\$1,221,813,000). 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, share awards (including incentive shares) and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, legal and regulatory requirements and in accordance with the share option scheme, share award scheme and share incentive scheme of the Group. 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 employee incentive scheme is also adopted by a subsidiary of the Company for the purpose of recognizing the contributions of its certain employees and persons.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board reviewed daily governance of the Company from time to time in accordance with the principles of good corporate governance (the "Principles") and code provisions (the "Code Provisions") as set out in Appendix 14 of the Listing Rules and considered that, during the Current Year, the Company has complied with all Principles and there has been no deviation from the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

PUBLICATION OF ANNUAL REPORT

The 2022 Annual Report containing the information required by the Listing Rules will be despatched to Shareholders and published on the websites of each of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>), The Singapore Exchange Securities Trading Limited (<https://www.sgx.com/securities/company-announcements>) and 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, 23 March 2023

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