Comba

京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited

年報 Annual Report 2006

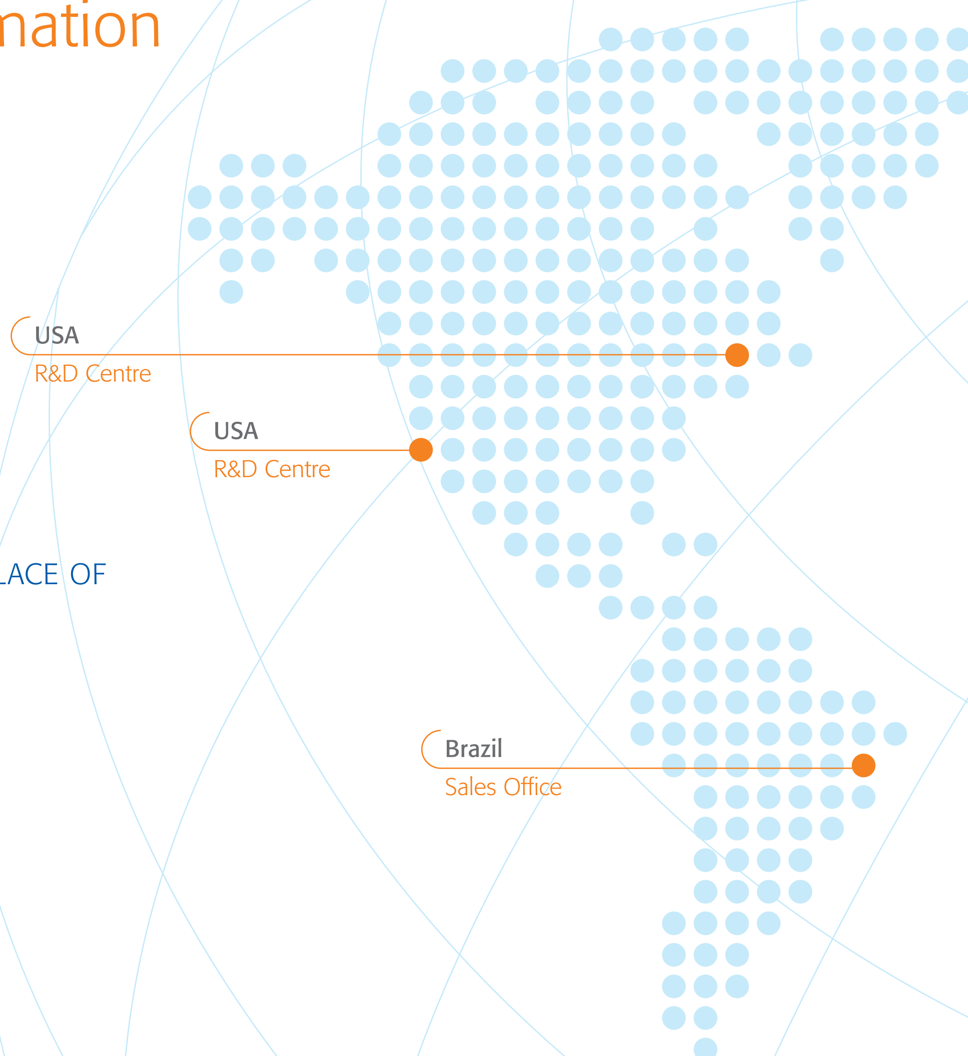
股份編號 Stock Code : 2342

天地無垠 科技無限

Technology Beyond Frontiers

Contents

Corporate Information



REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1503-1510, 15th Floor, Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Chan Kai Leung, Clement *ACA, CPA*

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin
Yao Yan
Liu Cai

AUTHORISED REPRESENTATIVES

Fok Tung Ling
Chan Kai Leung, Clement *ACA, CPA*

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

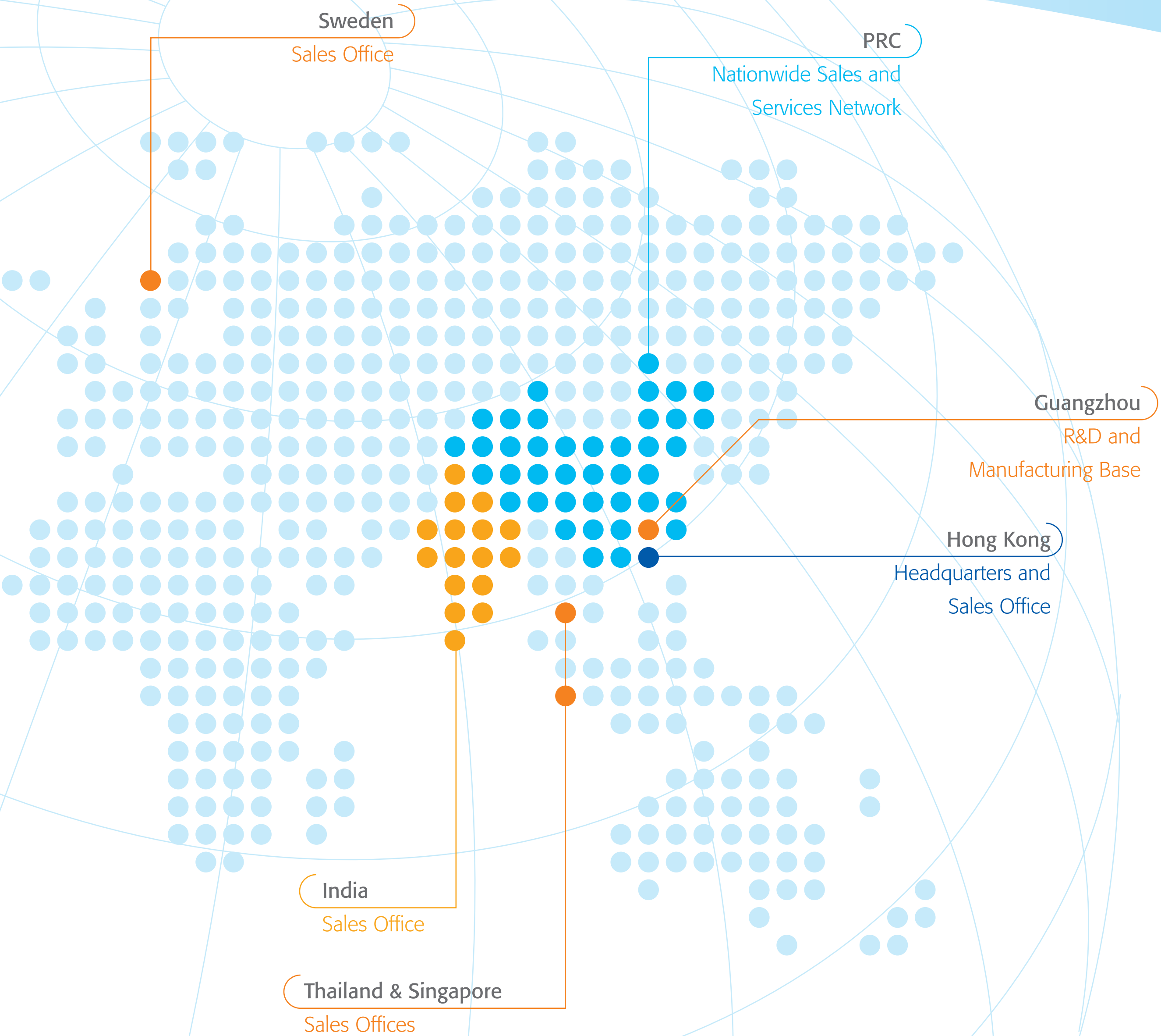
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Svenska Handelsbaken AB (publ)
Hong Kong Branch
2008 Hutchison House
10 Harcourt Road, Central
Hong Kong



The Hongkong and Shanghai Banking Corporation Limited
2nd Floor, HSBC Building Mongkok
673 Nathan Road
Mongkok
Kowloon, Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Centre
99 Queen's Road Central
Central
Hong Kong

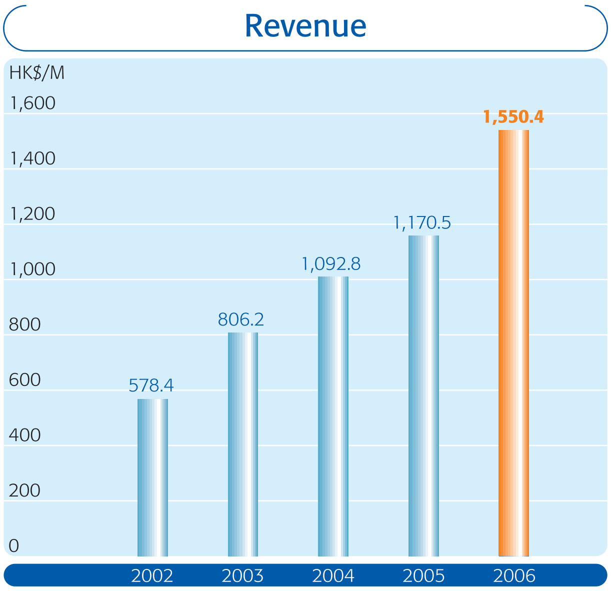
Industrial and Commercial Bank of China (Asia) Limited
33rd Floor, ICBC Tower,
3 Garden Road, Central,
Hong Kong

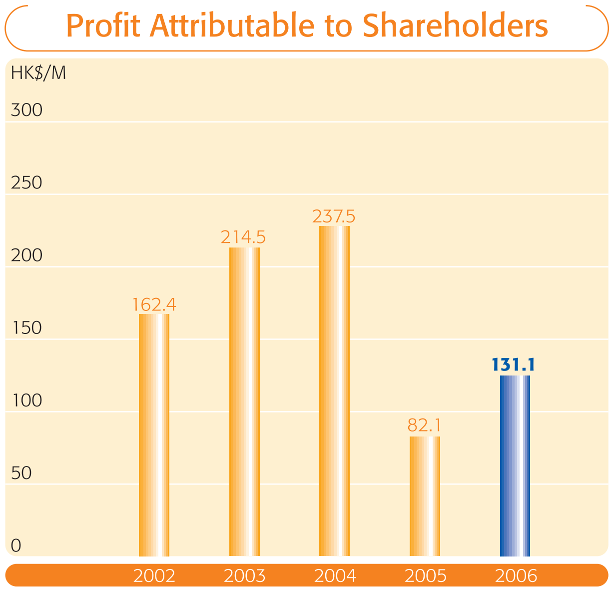
Bank of China
GETD District Branch
2 Qingnian Road
GETD District
Guangzhou, PRC

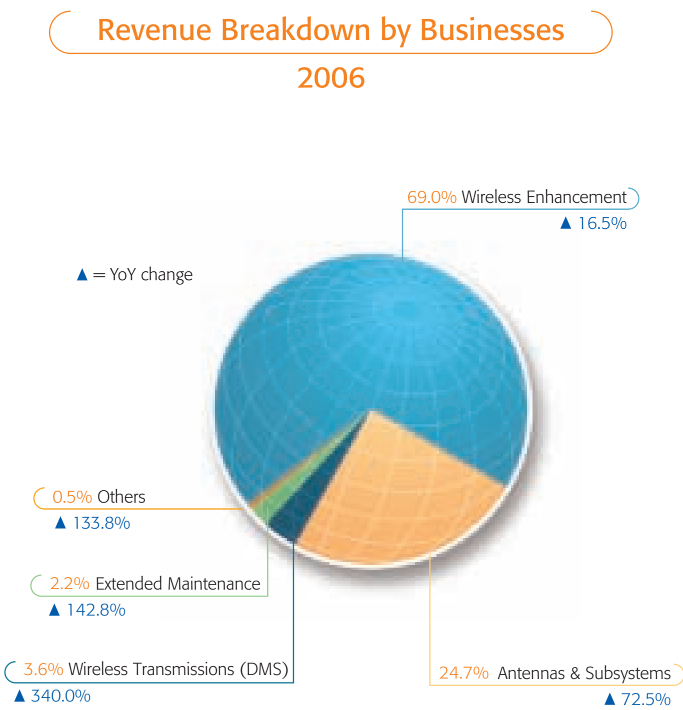
Industrial and Commercial Bank of China
GETD District Sub-branch
719 Kai Fa High Road
GETD District
Guangzhou, PRC

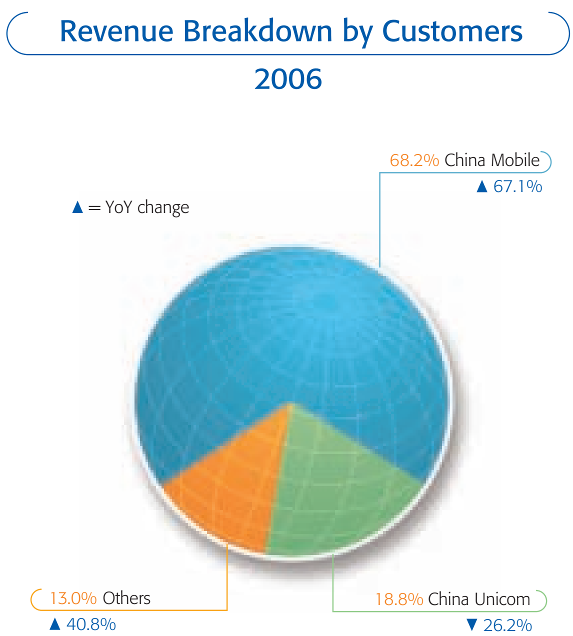
China Merchants Bank
Guangdong Branch Gaoxin Sub-branch
1 Huajing Road, First Floor, Southern Communication Plaza
Guangzhou, PRC

Financial Summary









Financial Summary

For the year ended 31 December	2006 HK$'000	2005 HK$'000	Change
Revenue	**1,550,441**	1,170,515	+32.5%
Gross profit	**586,540**	474,326	+23.7%
Profit attributable to shareholders	**131,140**	82,089	+59.8%
Basic EPS (HK cents)	**15.69**	9.86	+59.1%
Final dividend per share (HK cents)	**4.5**	3.0	+50.0%

Key Financial Figures

As at 31 December	2006 HK$'000	2005 HK$'000
Total assets	**2,416,552**	2,182,236
Net assets	**1,406,859**	1,195,315
Cash and bank balances	**494,846**	492,414
Current ratio	**2.1X**	2.0X
A/R turnover days	**172**	174
A/P turnover days	**162**	170
Inventory turnover days	**225**	286
Return on average equity	**10.1%**	7.2%
Gearing ratio	**6.3%**	14.0%

Corporate Milestone 2006

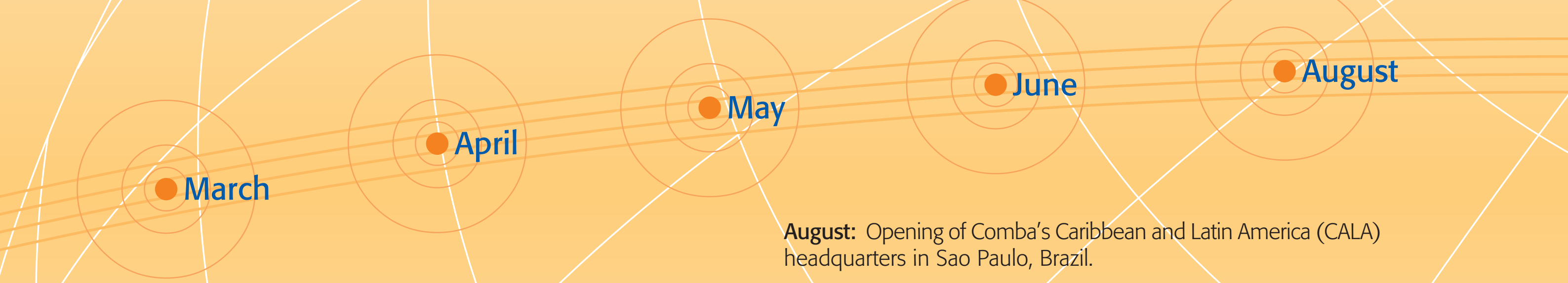
March: Official launch of Comba's USA office in Santa Clara, California. The new office will eventually provide a comprehensive suite of solutions to customers with R&D, sales, technical and support functions.

April: Launch of the 3G MCPA (multi-carrier power amplifier) at the CTIA Wireless 2006 conference in Las Vegas.

The 3G MCPA was developed by Comba's R&D facilities in Santa Clara, California

June: Comba's band selective repeaters recognized for technical excellence by the State Intellectual Property Office of PRC and awarded the Ninth Session National Outstanding Patent Award.

Award plaque recognizing Comba's technical excellence



April: Comba achieves landmark victory with leading rankings for all four of its antenna types (VET, omni-directional, polarized and bi-polarized antennas) in BTS antenna tenders at China Mobile's 2006 central procurement programme – the only vendor to have such success.

April: Comba realigns its business units to effectively address the Company's future development. Three units were established: Wireless Enhancement, Antennas & Subsystems and Wireless Transmission.

Realignment of business units will create synergies and efficiencies

August: Opening of Comba's Caribbean and Latin America (CALA) headquarters in Sao Paulo, Brazil.

September: Inauguration of Comba's new PRC headquarters in Science City, Guangzhou and expansion of production base. Featuring world-class R&D facilities, the new headquarters forms a strong foundation for Comba's growth.

Aerial view of Comba's facilities at Guangzhou Science City

September: Comba recognized as one of the "Top 100 National & Overseas Chinese Enterprises between 2003 to 2005" by the Overseas Chinese Affairs Office of the PRC State Council.

Award presentation ceremony held in Beijing

October: Comba announces the world's first 3G MCPA compatible with the AWS (Advanced Wireless Service) band.

September

October

November

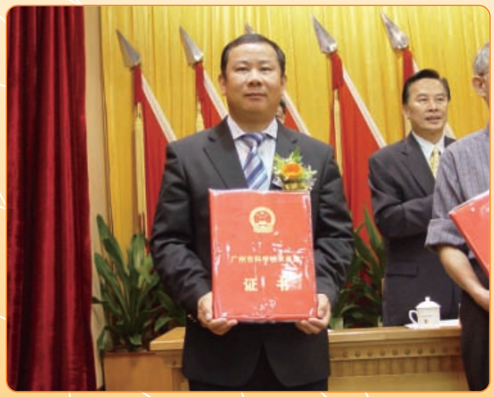
December

October: Comba named a "Business Superbrand" by the Superbrands Organization – an independent international authority on branding.

October: Comba's Chairman & President, Mr. Fok Tung Ling named "Hong Kong CEO of the Year" at the CNBC Asia Business Leaders Award 2006 ceremony.

November: Comba joins the TD-SCDMA Industry Alliance as a non-executive member.

November: Comba awarded "National 1st Prize for the Advancement of Science & Technology in Guangzhou" for its 800Mhz CDMA Repeaters.



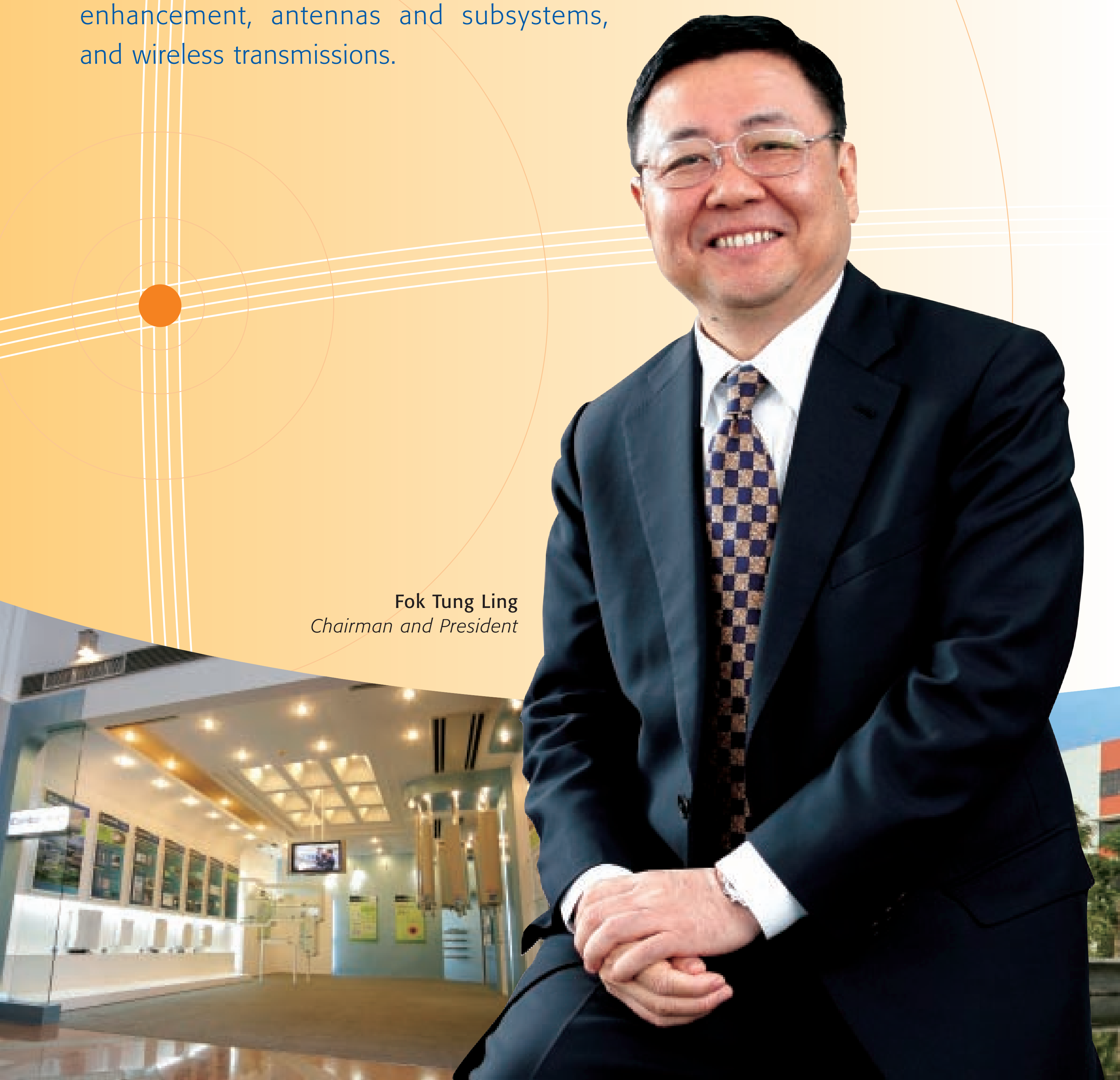
Comba's Vice Chairman & Executive Vice President Mr. Zhang Yue Jun at the award ceremony

December: Comba's annual production of BTS antennas reaches 100,000 for the first time.

Celebrating the completion of the landmark antenna

Chairman's Statement

2006 was a year of solid growth for Comba. We are pleased to be able to deliver growth in all three business lines, namely, wireless enhancement, antennas and subsystems, and wireless transmissions.



Fok Tung Ling
Chairman and President

BUSINESS REVIEW

2006 was a year of solid growth for Comba. We are pleased to be able to deliver growth in all three business lines, namely, wireless enhancement, antennas and subsystems, and wireless transmissions. The product growth strategies we adopted a few years ago started paying dividends. The Group recorded steady revenue growth in its core business of wireless enhancement. We delivered remarkable growth in antennas and subsystems business and robust growth in wireless transmissions business in 2006. We had seen some achievements in our market expansion strategy. While we continued to penetrate the domestic market in the PRC and to strengthen our relationships with the customers, we actively developed our overseas business.

China Mobile Communications Corporation and its subsidiaries (the "China Mobile Group") and China United Telecommunications Corporation and its subsidiaries (the "China Unicom Group") remained to be our largest customers during 2006. Through our technical services and nationwide support platform, we played an important role in helping mobile operators to enhance the quality of their mobile networks. Without such quality services platform, we could not have achieved the remarkable business growth in 2006.

Export market witnessed another year of remarkable growth. In order to expand our international market and broaden our name recognition, we are actively expanding our international presence and have participated in international exhibitions during 2006, including 3GSM World Congress in Spain in February, CommunicAsia in Singapore in June and the ITU Telecom World in Hong Kong in December. Following the set up of an office in Sao Paulo, Brazil in early 2006, the Group has already established presence globally, covering most of the developing countries. We are confident that the growth momentum of export sales will continue in 2007 and beyond. During 2006, we also expanded our sales channels to the core equipment manufacturer market. This has helped broaden our customer base.

Chairman's Statement

Our new PRC headquarters in Guangzhou Science City, Guangdong, the PRC was opened in September 2006. This marked a new milestone for Comba. Our R&D, sales and marketing and general management functions have been relocated to the new headquarters in order to achieve better coordination among various functions. This has also resulted in more space in the existing facilities being used for production. Such expansion has enabled Comba to be ready for the business opportunities in the next few years.

In view of the 3G business opportunities ahead, we continued to strengthen our market leadership position. We have implemented all-round growth strategies in product development, solution innovation, improving customer services quality and market expansion. A strong R&D team in the PRC is complemented by two R&D centres in the US, one for outdoor unit in our DMS business and one for multi-carrier power amplifiers (MCPA) product line. Such well-coordinated R&D efforts have enabled the Group to develop top quality products which can meet market needs.

On the other hand, we are pleased with the results achieved by implementing a new SAP ERP system. Our procurement, finance, accounting, production, operations and project management functions have been integrated into an automated platform. Efficiency and control have been greatly improved.

INDUSTRY OUTLOOK

The mobile market in the PRC has been growing rapidly, with the number of subscribers exceeding 460 million by the end of 2006. More mobile applications services are available and the mobile subscribers are demanding better services from the operators. This has resulted in greater capital expenditure on network optimisation by operators to enhance the quality of their mobile networks. In the near term, we remain cautiously optimistic on the 2G wireless enhancement solutions market as mobile operators continue to improve the breadth and depth of the mobile communications networks.

The mobile communications market in the PRC is expected to achieve another round of substantial growth in the medium term. The State government is determined to promote the domestic application of TD-SCDMA 3G technology and it is widely reported that the parent company of the China Mobile Group will be launching a TD-SCDMA capex programme shortly. Given our excellent relationship with the China Mobile Group and each of the related core equipment manufacturers, and our participation in the trial networks, we are well poised to benefit from the TD-SCDMA capex rollout in a number of cities in the PRC in 2007. On the other hand, through PHS business and trials on 3G products, we have demonstrated our strength and expertise, and have established good relationships with the Chinese fixed line operators, who are expected to expand into the mobile market in the foreseeable future.

We are therefore very excited about the business opportunities brought forth for Comba by the opening up of the mobile market and the potential granting of 3G licences in the PRC. The Group has been well prepared for the 3G product development, production and services. Leveraging our leading position in the 2G market, we expect to benefit significantly from the launch of 3G services in the PRC. We are also working diligently to expand our business beyond the PRC market and to the core equipment manufacturer market. These growth strategies will broaden our customer base and create new revenue streams that will transform Comba gradually into a group with relatively more balanced income sources.

Last but not least, I would like to take this opportunity to thank our customers who have given us the opportunity to be of service to them. Additionally, I would like to thank our shareholders, business partners, fellow directors and employees for their support and contribution. 2006 was a year of solid growth for Comba. I am pleased to witness the revenue contribution from new businesses. As regards 2007 and beyond, we are confident and are delighted to face the tremendous growth opportunities in the mobile communications equipment market. We will continue to create value for our customers, present a good working environment for our employees, perform social responsibilities, endeavour to deliver satisfactory growth and maximize shareholders' value.

Fok Tung Ling
Chairman and President
Hong Kong, 12 April 2007

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2006 (the "Current Year") was HK$1,550,441,000, representing an increase of approximately 32.5% over the revenue for the year ended 31 December 2005 (the "Prior Year"). During the Current Year, the Group benefited from continued economic growth and urban and rural development in the PRC. This, together with strong subscriber growth achieved by the mobile operators, resulted in increased wireless enhancement capital expenditure. In addition, it recorded robust revenue growth in new businesses such as base transceiver station ("BTS") antennas and subsystems, and digital microwave systems ("DMS"). International market also delivered remarkable growth in revenue during the Current Year.

By customers

Revenue generated from the China Mobile Group increased remarkably by 67.1% and accounted for 68.2% of the Group's revenue in the Current Year. Such strong growth is primarily due to increased wireless enhancement capital expenditure by the China Mobile Group for network optimisation amid strong subscriber growth. The Group's broadened product and solution portfolio also contributed

to increased revenue generated from the China Mobile Group. During the Current Year, revenue generated from the China Unicom Group decreased by 26.2% and accounted for 18.8% of the Group's revenue in the Current Year.

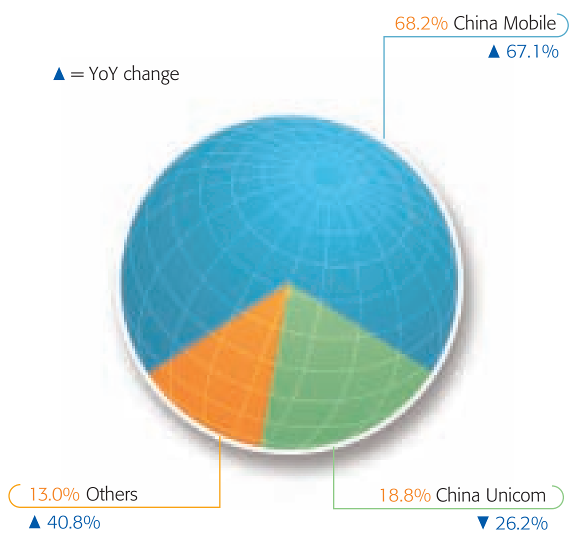
Revenue from other customers including agents in the PRC, core equipment manufacturers and international customers accounted for 13.0% of the Group's revenue in the Current Year. Out of which, international sales (including sales to core equipment manufacturers) more than doubled and accounted for 7.4% of the Group's revenue in the Current Year compared to 4.6% in the Prior Year. The Group's international expansion effort has achieved good progress as demonstrated by the strong growth, which is contributed by addition of new customers and repeat orders from existing customers.

By businesses

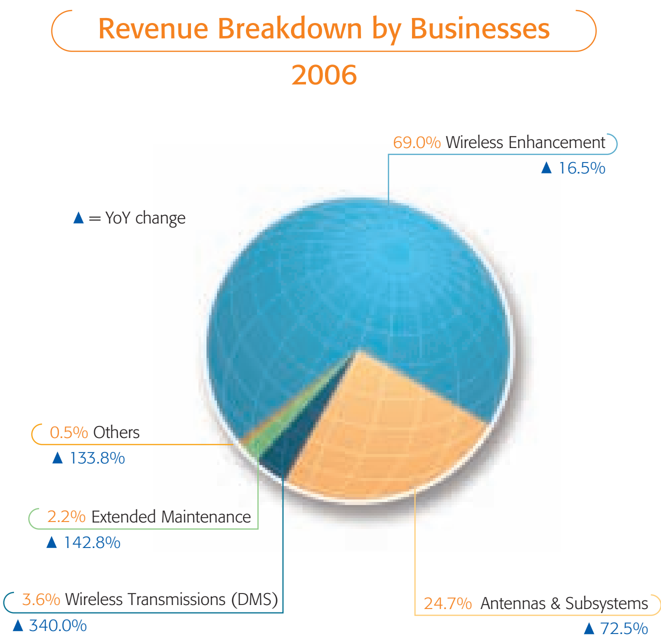
Revenue generated from wireless enhancement business in the Current Year increased by 16.5% over the Prior Year. It accounted for 69.0% of the Group's revenue in the Current Year, compared to 78.5% in the Prior Year. Products managed by this business unit include repeaters, boosters, tower mounted boosters, etc. Revenue reported under this business unit includes the service revenue associated with, and the cables used in, the related turnkey projects. In general, the Group continued to benefit from the steady wireless enhancement capital expenditure by the mobile operators in the PRC.

Revenue Breakdown by Customers

2006



Management Discussion and Analysis



Revenue generated from antennas and subsystems business in the Current Year grew by 72.5% over the Prior Year. It accounted for 24.7% of the Group's revenue in the Current Year, compared to 19.0% in the Prior Year. Products managed by this business unit include antennas and passive accessories used in the wireless enhancement solutions, BTS antennas, camouflaged antennas, etc. Out of which, revenue from BTS antennas more than doubled in the Current Year.

Revenue generated from the wireless transmissions business increased more than threefold and accounted for 3.6% of the Group's revenue in the Current Year, compared to 1.1% in the Prior Year. The Group has developed a full range of digital microwave products which are well received in the PRC and the international markets.

In addition, revenue from extended maintenance services more than doubled and accounted for 2.2% of the Group's revenue in the Current Year, compared to 1.2% in the Prior Year. With a growing installed base, such growth momentum is expected to continue.

Gross profit

The Group has been facing continued pressure on the average selling price and hence gross profit margin of its products and solutions for the maturing 2G mobile communications market in the PRC, especially after the central procurement programme initiated by the China Mobile Group in mid 2005. In view of this, the Group has implemented various measures to mitigate this downward trend. It optimised its product portfolio by focusing on products with higher margin, optimised the product design, and continued to negotiate better pricing for materials. In addition, The Group improved its logistics management, thereby enhancing production efficiency and lowering costs. All of these efforts helped sustain the gross profit margin at a healthy level, being 37.8% in the Current Year, compared to 40.5% in the Prior Year. Gross profit of the Group for the Current Year was HK$586,540,000, representing an increase of 23.7% over the Prior Year.


Research and development costs

The Group has continued to allocate its resources appropriately in the research and development ("R&D") of its products and solutions including those related to 3G in order to enable it to meet current and future market demand. For instance, the Group continued to expand its R&D team in the PRC during the Current Year. On the other hand, the R&D centre in the West Coast of the United States was established in the third quarter of 2005 and full year expenses were therefore reflected in the Current Year. R&D expenses increased by 22.0% to HK$76,267,000 and accounted for 4.9% of revenue in the Current Year compared to 5.3% in the Prior Year. This demonstrates that the Group's R&D efforts are very focused and can cater to the market needs. With its continuous investment in R&D, the Group achieved significant accomplishment in intellectual property rights, having applied for over 160 patents as at the end of the Current Year.

Selling and distribution costs

Selling and distribution costs were HK$100,215,000 in the Current Year, representing an increase of 15.2% over the Prior Year. With more focused sales and marketing efforts on markets with high demand and a broader product portfolio supported by an established sales platform, the Group achieved better efficiency in selling and distribution costs which accounted for 6.5% of the Group's revenue in the Current Year, compared to 7.4% in the Prior Year. This proves that the Group's cautious expansion during the industry slowdown in 2005 was a right decision, setting a good foundation of sales network on which the Group is able to tap into business opportunities as and when they arise.

Administrative expenses

Administrative expenses were HK251,199,000 in the Current Year, representing an increase of 12.6% over the Prior Year, and accounted for 16.2% of the Group's revenue in the Current Year, compared to 19.1% in the Prior Year. This improvement was primarily a result of the Group's strengthened budgetary control. Secondly, economies of scale were also achieved amid strong revenue growth in the Current Year. Over the years, the Group has established an experienced and seasoned management team who is capable of managing the Group's resources effectively and efficiently.

Finance costs

Finance costs were HK$15,918,000 in the Current Year, representing a decrease of 25.9% over the Prior Year. In view of rising interest rates, the Group was successful in improving its cash cycle, thereby reducing the bank borrowing level for working capital purposes during the Current Year.

Tax

Effective tax rate was 11.2% in the Current Year, compared to 8.5% in the Prior Year.

Net profit

Profit attributable to shareholders ("Net Profit") for the Current Year was HK$131,140,000, representing an increase of 59.8% over the Prior Year. Net profit margin was 8.5% in the Current Year compared to 7.0% in the Prior Year. Such increase was a result of strong revenue growth, healthy gross profit margin, efficient utilization of the Group's resources and better economies of scale described above.

PROSPECT

Wireless enhancement solutions

The Directors believe that the recent 3G development in the PRC represents a good business opportunity for the Group in the near term. It has been widely reported that the parent company of the China Mobile Group will be rolling out TD-SCDMA capex in a number of cities including those where the Olympic Games will be held in 2008. While the timing of the 3G licence grant remains to be uncertain, this move has demonstrated the State Government's determination in promoting the home grown TD-SCDMA technology.

The Group has always taken a proactive role in its readiness for 3G. For instance, it has developed a number of 3G repeaters and boosters for WCDMA and TD-SCDMA standards according to market needs. During the Current Year, the Group became a member of the TD-SCDMA Industry Alliance which was established to perfect and promote the TD-SCDMA standard. In addition, the Group has participated in various 3G network trials and testing and is therefore well prepared for 3G in all aspects. Given the strong business relationship with the China Mobile Group, the Group is poised to benefit from its TD-SCDMA wireless enhancement investment in 2007 and beyond. The Directors believe that the other two 3G standards, namely, WCDMA and CDMA 2000 will be adopted in the PRC in due course and therefore the Group should monitor the development of 3G closely and take appropriate measures accordingly.

The Directors also believe that 2G and 3G networks will coexist for a long period of time, operators will still need to invest in the construction of 2G network, given a continued and strong growth in subscribers and an extension in coverage to rural areas. Both the China Mobile Group and the China Unicom Group indicated recently that they would increase capital expenditure in their respective GSM networks in 2007 compared to 2006. Apart from investing in core network equipment to provide a larger capacity, mobile operators would invest in the optimisation of network quality and resources in order to improve the breadth and depth of the network. The Directors therefore remain cautiously optimistic about the wireless enhancement solutions market in the PRC, regardless of the timing of 3G licence grant.

Mobile operators in the PRC have increasingly adopted the practice of central procurement in order to streamline their supply chain management as well as to save costs. The Directors believe that it is good for the market as a whole because fewer players will be selected and the Group may capture a larger market share. Nevertheless, inevitably, the average selling price of the wireless enhancement products is expected to be trending downwards and gross profit margin is expected to be under pressure.

The international market provides a lot of growth potential because of the continuous investment in wireless infrastructure around the world. The 2G network built in developing countries and the 3G network upgrade in the developed world offer a lot of opportunities. The global market landscape has also changed quite drastically following the mergers of the Group's competitors which provide a lot of entry room for the Group as operators

around the world are looking for established suppliers. For instance, the Group has recently signed a supply agreement with a European mobile operator in respect of its multi-carrier tower mounted boosters. This is a major step forward, demonstrating the Group's capabilities in developing top quality products and expanding its customer base to renowned global mobile operators.

Antennas and Subsystems

The Group has actively expanded its capabilities on antennas and subsystems. The Group's continuous investment in R&D has enabled it to develop a complete product portfolio including smart antennas, multi-band antennas with 3G capabilities, camouflaged antennas and a full range of tower top solutions to address the PRC market as well as the global operators market.

The Group's production capacity for BTS antennas has more than tripled since 2005 in order to cope with the anticipated demand. The Group also participates in international technical and standards forum like the AISG Forum to maintain its technical excellence. The technical leadership that the Group has established in the PRC has enabled it to be the sole supplier for certain high performance antennas in the PRC. In addition to using its own sales network, the Group is also selling its BTS antennas in the overseas market through a leading Chinese core equipment manufacturer. This once again demonstrates the Group's technical leadership in this market segment which, the Directors believe, is going to provide strong growth momentum for the Group.

On top of BTS antennas and subsystems, products classified under this business unit include antennas and passive accessories used in wireless enhancement solutions. The demand for these products will grow with the increase in demand for repeaters and boosters as described above.

Wireless Transmissions – Digital Microwave Systems ("DMS")

The Group has now completed the portfolio of Point-to-Point DMS solutions. Its products cover most frequency bands and provide wireless transmissions from two E1s (2Mbps) to up to STM-1 (155Mbps). DMS is currently the core product line for the Group's wireless transmissions business and its products have been well received by its PRC and international customers. The Directors believe that the continuous investment in the global wireless and wireline telecom infrastructure will provide good growth potential for the Group's DMS products. Its products provide a quick and cost effective solution for operators in their high speed data and backhaul services especially in the developing countries like South East Asia, India, Caribbean and Latin America ("CALA") and Africa. In addition, the forthcoming launch of 3G services in the PRC is another growth opportunity for DMS as there will be a huge demand in BTS backhaul services.

Extended maintenance services

The Group has accumulated a growing installed base over the years which serve as a solid base for recurring income. Upon expiry of the free warranty period of the wireless enhancement solutions projects undertaken by the Group in previous years, the Group is in a position to negotiate extended maintenance services contracts with its customers and it expects to generate more revenue from this business segment.

Operations

In order to facilitate continuous growth of its existing businesses while providing growth and support for new products and global expansion strategy, the Group has implemented a corporate wide resources realignment exercise thereby creating three separate business units. The Wireless Enhancement Business Unit focuses on wireless enhancement market for both indoor and outdoor environments; the Antennas & Subsystems Business Unit primarily provides BTS antennas and subsystems products; and the Wireless Transmissions Business Unit offers DMS and other new transmission products. Each of these business units is responsible for its own product management including product development and marketing. This has resulted in a well coordinated and focused effort in promoting different product lines within each of these business units. The Directors are confident that the resources realignment will allow the Group to provide an excellent overall support platform for its global customers and allow the Group to grow and become a leading player in the global telecom market.

The Group has recently relocated its sales and marketing and R&D departments, among others, to the new headquarters in Guangzhou Science City, Guangzhou, the PRC. The existing plant in the Guangzhou Economic and Technology Development District is mainly used for production. The increase in production floor space will enable the Group to meet business demand flexibly in the next few years.

After implementing a new SAP ERP system in the PRC in 2005, a high level of integration of logistics management has been achieved. Efficiency and control have been improved in the areas of materials procurement, inventory control, overall production management, project coordination management and working capital management. The ERP system is being launched in other entities within the Group.

CONCLUSION

The Directors believe that the demand for 2G products in the PRC continues to be strong given the increasing number of mobile subscribers and infrastructure projects as well as the extension of coverage to the rural areas, regardless of 3G network licensing in the PRC. This is also evidenced by the capex plan of the PRC mobile operators for the next three years. In addition, the Directors remain cautiously optimistic about the opportunities arising from the future development of the 3G mobile market in the PRC in the medium term as the State government is determined to open up the mobile market, thereby allowing more operators to provide mobile services. This will drive the demand for wireless enhancement solutions as mobile subscribers demand better services. The forthcoming TD-SCDMA capex rollout in a number of cities in the PRC is expected to bring new revenue stream to the Group.

The Group believes that overall diversification of markets and products while maintaining its core technical competency is essential for long term success. The international market expansion and the development of BTS antennas and subsystems and DMS products for wireless transmissions are all important diversification strategies to fuel its long term growth.

Following the expansion to CALA market, the Group will continue to expand it geographical coverage to serve more customers. The Group has also realigned its resources at the headquarters level by forming three separate business units to guarantee good resources allocation and support for growth in these new product areas.

The Directors believe that the wireless industry is still at high growth rate and technologies are evolving daily. The Group needs to follow diligently the industry trend and new technology development, and analyse market risks and threats to maintain its leadership position as new disruptive technologies can appear any day. To cope with the ever changing market needs, the Group will continue to invest in products and technology based R&D. With the opening of the new headquarters in the PRC in 2006, the Group provides an inspiring working environment and state of the art equipment for new ideas and products. In addition, the Group has an expanded production platform that allows it to meet the future demand for its products and solutions. Capital expenditure of the Group is expected to be funded by various means of financing. Finally, the Group will endeavour to maintain a solid and healthy financial position and consolidate its leading market position, while pursuing a balanced and carefully planned growth strategy in order to maximize the shareholders' value.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2006, the Group had net current assets of HK$1,072,888,000. Current assets comprised inventories of HK$617,789,000, trade receivables of HK$840,426,000, notes receivable of HK$33,754,000, prepayments, deposits and other receivables of HK$97,395,000, restricted bank deposits, short term time deposits and pledged time deposits of HK$480,000 and cash and cash equivalents of HK$492,737,000. Current liabilities comprised trade and bills payables of HK$500,776,000, other payables and accruals of HK$307,756,000, interest-bearing bank loans of HK$152,908,000, tax payable of HK$22,214,000 and provision for product warranties of HK$26,039,000.

The average receivable turnover for the Current Year was 172 days compared to 174 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The contractual credit period is generally for a period of three to six months except for those retention money receivables with payment ranging from six to twenty-four months. The average payable turnover for the Current Year was 162 days compared to 170 days for the Prior Year. The average inventory turnover for the Current Year was 225 days compared to 286 days for the Prior Year.

As at 31 December 2006, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in RMB, HK$ and US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. Since the exchange fluctuations among these currencies are low, the Directors consider that there is no significant exchange risk.

The Group's gearing ratio, calculated as total interest-bearing debts (including bank loans and advances, and finance lease payables) over total assets, was 6.3% as at 31 December 2006 (31 December 2005: 14.0%).

CHARGE ON ASSETS

A charge on a time deposit, amounted to HK$63,000,000 as at 31 December 2005, previously to secure the Group's bank loans was released as at 31 December 2006. The Group's bank loans were totally unsecured as at 31 December 2006.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had contingent liabilities of HK$2,109,000 (31 December 2005: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group had approximately 3,800 staff. The total staff costs for the Current Year was HK$300,478,000. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of each such employee as well as the Group. The Group also provides training to staff to improve their skills and develop their respective expertise.

Directors and Senior Management

Mr. Fok Tung Ling

DIRECTORS

Executive Directors

Mr. Fok Tung Ling (霍東齡), aged 50, chairman of the Board and the president. Mr. Fok is primarily responsible for the Group's overall strategic planning, management and business development. From 1982 to 1987, Mr. Fok worked as an engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from the Beijing Institute of Post and Telecommunications (currently known as the Beijing University of Post and Telecommunications) (現北京郵電大學) majoring in microwave communications. Prior to 1991, Mr. Fok worked as an executive at the China Electronics Import-Export Corporation, South China Branch (中國電子進出口總公司華南分公司) and was involved in the import and export of electronic products. From 1991 to 1997, Mr. Fok was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 19 years of experience in wireless communications. Mr. Fok is the sole director of Prime Choice Investments Limited and Total Master Investments Limited, both of which are substantial shareholders of the Company.

Mr. Zhang Yue Jun

Mr. Zhang Yue Jun (張躍軍), aged 48, vice chairman & executive vice president, R&D. Mr. Zhang is responsible for the overall research and development of new technology and products. He graduated from South China Institute of Technology (currently known as South China University of Technology) (現華南理工大學) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997 he was the deputy chief engineer of a joint venture company in Shenzhen, mainly responsible for wireless telecommunications projects. Mr. Zhang has over 24 years of experience in wireless communications and he co-founded the Group in 1997. Mr. Zhang is the sole director of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

Mr. Chan Kai Leung, Clement (陳繼良), aged 43, executive director and financial controller. He is also the qualified accountant and company secretary of the Company. Mr. Chan is primarily responsible for the overall financial management, accounting, investor relations and company secretarial matters of the Group. He is a member of the Institute of Chartered Accountants in England and Wales and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Chan obtained a master's degree in business administration from the University of Sheffield in the United Kingdom. He has over 18 years of experience in auditing, investment banking and accounting and he joined the Group in 2001.

Mr. Chan Kai Leung, Clement

Mr. Wu Jiang Cheng

Mr. Wu Jiang Cheng (伍江成), aged 47, executive director and senior vice president, PRC marketing & sales. He is responsible for the setting, implementation and control of the Group's overall sales and marketing strategies in the PRC. He graduated from the Southwest Jiaotong University (西南交通大學) in 1982 and obtained a bachelor's degree in electrical engineering and an EMBA degree at Tsinghua University in 2006. Mr. Wu has over 10 years of experience as a lecturer in engineering with the last two years in the Guangzhou University and over 14 years of experience in communications and marketing. He joined the Group in 1997.

Directors and Senior Management

Mr. Yan Ji Ci

Mr. Yan Ji Ci (嚴紀慈), aged 52, executive director and senior vice president, production operations. Mr. Yan is responsible for the operations in the Group's production facilities in Guangzhou, the PRC, he is also supervising the overall day to day management of the Group's branches in different provinces in the PRC. Mr. Yan graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 29 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 41, executive director. Mr. Zheng is also the chief executive officer of the WaveLab Holdings Limited, an indirect subsidiary of the Company. Mr. Zheng is primarily responsible for the strategic development of the digital microwave systems products. He graduated from University of Science and Technology of China and obtained bachelor and master degrees in electrical engineering. From 2000 to 2002, Mr. Zheng served as chief engineer in Filtronic Sigtek, Inc., Maryland USA. Prior to the position, he worked as an engineering manager in wireless communication division of L3 Communications (former EER Systems, Inc.), Virginia USA. He is the member of the Institute of Electrical and Electronics Engineers (IEEE). Mr. Zheng has over 20 years of experience in RF/micro wave/millimeter-wave technology and wireless communications especially in the area of research and development, and engineering management. He joined the Group in 2003.

Mr. Zheng Guo Bao

Mr. Yeung Pui Sang, Simon

Mr. Yeung Pui Sang, Simon (楊沛燊), aged 34, executive director and senior vice president, strategy & international operations. Mr. Yeung is also the chief operating & strategy officer of Comba Telecom Systems International Limited, an indirect wholly owned subsidiary of the Company. Prior to joining the Group, Mr. Yeung was the vice president of strategy & business development and a founding employee of LGC Wireless, Inc. ("LGC") based in the Silicon Valley, USA. Mr. Yeung also held multiple positions at LGC including the general manager of a business unit, director of technical marketing, general manager of sales, and principal engineer. Mr. Yeung holds a master of science degree in engineering from University of California at Berkeley and a bachelor of science degree in electrical engineering from Purdue University. Mr. Yeung has over 11 years of experience in the telecom industry. He joined the Group in 2004.

Independent Non-executive Directors

Mr. Yao Yan (姚彥), aged 69, independent non-executive director. Mr. Yao is currently the deputy director of Academy Committee of State Key Lab and a professor in the Department of Electronics Engineering of Tsinghua University. He was the director of the State Key Lab in 1998. Mr. Yao joined the Group in 2003.

Mr. Lau Siu Ki, Kevin (劉紹基), aged 48, independent non-executive director. He has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently working as a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants. He is now a member of the Council of ACCA. He has also served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for the year 2000/2001. Mr. Lau is also an independent non-executive director of certain other companies listed on The Stock Exchange of Hong Kong Limited. Mr. Lau joined the Group in 2003.

Mr. Liu Cai (劉彩), aged 67, independent non-executive director. He is the vice chairman and secretary-general of the China Institute of Communications and chairman of the Consultative Committee for Telecom Law Drafting of the Ministry of Information Industry. From 1988 to 2001, Professor Liu worked with the former Ministry of Post and Telecommunications and the Ministry of Information Industry of the PRC (the "Ministries"). As the director-general of the Policy and Regulation Department of the Ministries, he was directly involved in policy setting, reform planning, laws and regulations drafting for the telecommunications industry of the PRC. Before joining the Ministry in 1988, Professor Liu was engaged in research and development work at the China Academy of Post and Telecommunications after graduating from the Beijing Institute of Post and Telecommunications (currently known as the Beijing University of Post and Telecommunications). Mr. Liu joined the Group in 2003.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chen Sui Yang (陳遂陽), aged 43, vice president, wireless enhancement business unit. Mr. Chen is mainly responsible for the research and development of the new products and technology in wireless enhancement. He graduated from the Northwest Institute of Telecommunications Engineering (currently known as Xidian University) (現西安電子科技大學) and obtained a bachelor's degree in antenna technology in 1985. He is now taking an EMBA degree course in China Europe International Business School (CEIBS) (中歐國際工商學院). Mr. Chen has over 21 years of experience in technology research of wireless communications. He joined the Group in 1998.

Mr. Zhang Jin Yu, Charles (張金玉), aged 43, deputy financial controller, PRC finance. Mr. Zhang is responsible for the Group's accounting and financial management in the PRC. He is a member of the Certified General Accountants of Canada. He obtained a master of science degree in accounting from the University of New Haven in Connecticut, the United States of America in 1998 and a master's degree in economic from South-western University of Economics and Finance (西南財經大學) in 1990. He has over 16 years of experience in accounting and financial management and joined the Group in 2004.

Mr. Fredrik Dyfverman, aged 36, vice president of sales and business development for the Group's international branch in Sweden. Mr. Dyfverman is responsible for developing the Group's brand as well as the sales platform outside China market. Prior to joining the Group, Mr. Dyfverman was the vice president of system sales of Allgon Systems AB, based in Stockholm, Sweden. He graduated from the Kalmar University and obtained the bachelor of science degree in industrial engineering in 1996. Mr. Dyfverman has 9 years of experience in the wireless industry. He joined the Group in 2004.

Mr. Ong Sing Jye (王新杰), aged 38, general manager of the Group's international branch in Singapore. He is also the vice president of the network solutions within Comba International. Mr. Ong holds a master's degree from the Imperial College, London in advanced IT and an MBA from the University of Hull. He graduated with good honors from the University of Birmingham, specializing in

Electronics and Communications Engineering. He has more than 13 years of experience in the telecommunications industry and joined the Group in 2002.

Mr. Zhang Shan Yu (張山宇), aged 49, deputy general manager of the Group's sales and marketing department and director of the Group's Northeastern branch. Mr. Zhang is responsible for the Group's business development in Liaoning, Jilin and Heilongjiang provinces. He graduated from Dalian Institute of Technology (currently known as Dalian University of Technology) (現大連理工大學) and obtained a bachelor's degree in wireless technology. Mr. Zhang has over 24 years of experience in engineering, marketing and management. He joined the Group in 1997.

Mr. Feng Yong (馮勇), aged 35, deputy general manager of the Group's sales and marketing department and director of the Group's Eastern branch. Mr. Feng is responsible for senior level relationship with the Group's major customers and the Group's business development in Shanghai, Zhejiang and Jiangsu provinces. He graduated from the China Europe International Business School (CEIBS) (中歐國際工商學院) and obtained an executive master of business administration degree in 2005. Mr. Feng has over 9 years of experience in marketing and management. He joined the Group in 2000.

Mr. Chen Jin Jian (陳錦堅), aged 48, project manager of the Group. Mr. Chen is responsible for the Group's new headquarters project in Guangzhou Science City. He graduated from the Guangdong Radio and Television University (廣東廣播電視大學) and obtained a professional diploma in electronic technology. Mr. Chen has over 27 years of experience in quality control and procurement. He joined the Group in 1997.

Mr. Shen Wen Bo (沈文波), aged 43, deputy general manager of the Group's sales and marketing department and director of the Group's Northwestern branch. Mr. Shen is responsible senior level relationship with the Group's major customers and the Group's business development in Shaanxi, Qinghai and Gansu provinces; he is also responsible for Ningxia Huizu and Xinjiang Uygur autonomous regions. He obtained his master's degree in business administration from the Macao University of Science and Technology (澳門科技大學) in Macau. Mr. Shen has over 21 years of experience in marketing and management. He joined the Group in 1999.

Directors and Senior Management

Mr. Qiao Hong Feng (喬宏楓), aged 45, director of the Group's Northern branch. Mr. Qiao is responsible for the Group's business development in Shandong and Henan provinces. He graduated from Nankai University (南開大學) and obtained an executive master of business administration degree (EMBA) in 2005. Mr. Qiao has over 16 years of experience in marketing and management. He joined the Group in 1999.

Mr. Meng Cheng Zhi (蒙承志), aged 38, director of the Group's Southern branch as well as the general manager of the Group's Guangdong branch. Mr. Meng is responsible for the Group's business development in Guangdong, Hunan, Hainan and Guangxi provinces. He graduated from the Chengdu University of Electronic Science and Technology (currently known as University of Electronic Science and Technology) (現電子科技大學). Mr. Meng has over 14 years of experience in engineering and management. He joined the Group in 1997.

Ms. Li Yu Wen (李宇雯), aged 36, deputy general manager of the Group's sales and marketing department. Ms. Li is responsible for daily operations management of the Group's sales and marketing department and the liaison with key customers in Guangdong province. She graduated from the Yunnan University (雲南大學) in 1992 and obtained a bachelor's degree in physics. She also obtained an EMBA degree at Tsinghua University in 2006. Ms. Li has over 14 years of experience in the market of communications, operation and project management. Ms. Li served the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

Mr. Liu Yi Bo (劉義波), aged 38, general manager of the Group's wireless enhancement business unit. Mr. Liu is responsible for the management of technical support and research and development system in the Group's wireless enhancement product line. He graduated from University of Electronic Science & Technology of China (電子科技大學) and obtained a bachelor's degree in electronic magnetic field and microwave technology. Mr. Liu has over 15 years of experience in engineering and project management. He joined the Group in 1997.

Mr. Su Hua Hong (蘇華鴻), aged 66, senior engineer of professor level, wireless business technical director of the Group. Mr. Su is responsible for solution design of wireless enhancement product for the Group. He graduated from the Beijing Institute of Post and Telecommunications (currently known as Beijing University of Posts and Telecommunications) (現北京郵電大學) and obtained a master's degree. He was the chief engineer of the Research Centre of Institute of Design and the deputy director of Wireless Department of the Ministry of Post and Telecommunications, the PRC. Mr. Su obtained the engineering technology prominent contribution certificate from the State Council in 1992, and enjoyed the national level of government special allowance. Mr. Su has over 41 years of experience in telecommunications. He joined the Group in 2001.

Mr. Sun Ru Shi (孫孺石), aged 67, senior engineer, technical director of the Group's Eastern branch. Mr. Sun is responsible for special project solution design of the Group. Mr. Sun graduated from Xi'an Jiaotong University (西安交通大學) and obtained a bachelor's degree. Mr. Sun obtained the prominent contribution award from the State Council in 1992 and enjoyed the national level of government special allowance. Mr. Sun has over 41 years of experience in communications. He joined the Group in 2003.

Mr. Bu Bin Long (卜斌龍), aged 44, general manager of the Group's sub-system and antenna business unit. Mr. Bu is responsible for the Group's research & development in antenna products and operations management of sub-systems and mobile communications base stations. Mr. Bu graduated in 1985 from Northwest Institute of Telecommunications Engineering (currently known as Xidian University) (現西安電子科技大學) and obtained a master's degree in electronic magnetic field and microwave technology. Mr. Bu has over 21 years of experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Mr. Zhu Qin (朱勤), aged 49, microwave systems technical director of the Group. Mr. Zhu is responsible for the Group's research & development and technical management in digital microwave products. Mr. Zhu graduated from South China Institute of Technology (currently known as South China University of Technology) (現華南理工大學) and obtained a bachelor's degree in radio technology. Mr. Zhu has over 24 years of experience in development and technical management of microwave communication products. He joined the Group in 2004.

Mr. Wang Wei (王偉), aged 43, deputy technical director of the Group's research & development centre and the general manager of the Group's R&D centre in Nanjing, the PRC. Mr. Wang is responsible for the Group's research & development of the new products in RF technology of digital microwave systems. Mr. Wang graduated from the Department of Information Physics, Nanjing University (南京大學) and obtained a bachelor's degree in science. Mr. Wang has over 21 years of experience in research & development in RF technology of digital microwave systems. He joined the Group in 2005.

Mr. Di Ying Jie (邸英傑), aged 45, is the technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the product development in microwave RF passive accessories. Mr. Di graduated from Xidian University (西安電子科技大學) majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in design research of microwave RF passive accessories for many years. Mr. Di is also very experienced in product development in microwave RF passive accessories. He joined the Group in 2004.

Mr. Feng Bo (馮波), aged 52, director of the Group's Tianjin branch. Mr. Feng is responsible for the business development of the Group in Tianjin, Hebei, Shanxi and the Inner Mongolia Autonomous Region. He graduated from Tianjin University (天津大學) with a bachelor's degree in radio technology. Mr. Feng has over 26 years of experience in research, marketing and management of communications products. He joined the Group in 2002.

Mr. Shen Wen (沈文), aged 41, director of the Group's Southwest branch. Mr. Shen is responsible for the business development of the Group in Sichuan, Chongqing, Guizhou, Yunnan and the Tibet Autonomous Region. He graduated from South China University of Technology (華南理工大學) with a bachelor's degree in chemical engineering and light industry in 1988, and received an EMBA degree from School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in 2006. Mr. Shen has over 16 years of experience in communications engineering, marketing and management. He joined the Group in 1999.

Mr. Pan Tian (潘天), aged 31, director of the Central China region of the Group. Mr. Pan is responsible for the business development of the Group in Hunan, Hubei, Jiangxi and Anhui. He graduated from Air Force Engineering University (空軍工程大學) with a bachelor's degree in communications engineering. Mr. Pan has 7 years of experience in engineering, marketing and management. He joined the Group in 2000.

Mr. Zuo Lin Shi (左璘石), aged 45, is responsible for the Group's business development with China Telecom and China Netcom. He graduated from Nanjing University of Post and Telecommunications (南京郵電大學) with a bachelor's degree in communications engineering. Mr. Zuo has over 24 years of experience in engineering, marketing and management. He joined the Group in 2003.

Mr. Huang Shao Ping (黃少平), aged 50, head of Administration Office of the Group. Mr. Huang is responsible for government liaison, legal affairs, administration and management as well as corporate culture of the Group. He graduated from Sun Yat-sen University (中山大學) in 1981, majoring in Chinese language. Mr. Huang has over 25 years of experience in operation and management in major electronics companies and in administration and management in governmental authorities. He joined the Group in 2006.

Corporate Governance Report

The Group is continuously committed to achieving high standards of corporate governance to ensure transparency and accountability. It believes that corporate governance is crucial to the development of the Group and helps safeguard the interests of the Company's shareholders.

The Company has complied with the code provisions as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the financial year ended 31 December 2006, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that their divisions of responsibility should be clearly established and set out in writing. The Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of its board of directors (the "Board"), a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by its directors (the "Directors"). The Company has made specific enquiry with all Directors and each of the Directors has confirmed that they have complied with the required standard set out in the Model Code throughout the financial year ended 31 December 2006.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises 10 Directors. Details of the composition of the Board, relationship among members of the Board (if any), term of appointment of the Directors, and biographical information of the Directors are set out in the sections "Report of the Directors" and "Directors and Senior Management" of this annual report. The Board held 5 meetings during the financial year ended 31 December 2006 (the "Financial Year") with attendance record as follows:

Attendance at Board meeting	**Number of meetings attended (5 meetings in total)**
Executive Directors:	
Mr. Fok Tung Ling (Chairman & President)	5
Mr. Zhang Yue Jun	5
Mr. Chan Kai Leung, Clement	5
Mr. Wu Jiang Cheng	3
Mr. Yan Ji Ci	5
Mr. Zheng Guo Bao	4
Mr. Yeung Pui Sang, Simon	5
Independent Non-executive Directors:	
Mr. Yao Yan	5
Mr. Lau Siu Ki, Kevin	5
Mr. Liu Cai	3

Full Board meetings are held at least 4 times a year. The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim financial statements for the Board's approval before public reporting; implementation of strategies approved by the Board; the monitoring of operating budgets; the implementation of internal control procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

All the independent non-executive Directors are appointed for a term of one year. The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his independence. As at the date of this report, the Board is satisfied that all such Directors are in full compliance with the independence guidelines as laid down in the Listing Rules.

The Board acknowledges their responsibilities for the preparation of the financial statements of the Group.

REMUNERATION COMMITTEE

The remuneration committee comprises three independent non-executive Directors, Mr. Yao Yan, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai. Mr. Lau Siu Ki, Kevin is the chairman of the remuneration committee. Its primarily duties are to advise the Board on the remuneration policy for all Directors and senior management and to determine, review and monitor the remuneration packages and any compensation arrangements made to the Directors and senior management. The remuneration committee has adopted terms of reference which are in line with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

The Group offers competitive remuneration schemes to its employees (including directors) based on industry practices as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of each such employee as well as the Group. The Group also provides training to employees to improve their skills and develop their respective expertise.

There was no meeting held during the Financial Year but a meeting was held subsequent to 31 December 2006. All committee members attended that meeting, at which the compensation packages of all Directors and senior management were discussed and approved.

NOMINATION OF DIRECTORS

No nomination committee is set up. The Board exercises its duties to the appointment and removal of directors. During the nomination process, the Board usually considers the competency, independency (in case of independent non-executive director) & conflict of interests, capacity making him/herself available to the role as a director.

There was no appointment or removal of director in the Financial Year. Accordingly, the Board did not hold any meeting to address matters relating to nomination of directors during the Financial Year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, Mr. Yao Yan, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai. Mr. Lau Siu Ki, Kevin is the chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. Its primary duties are to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors.

The Group's financial statements for the year ended 31 December 2006 were reviewed by the Audit Committee, who is of the opinion that such statements complied with applicable accounting standards and legal requirements, and that adequate disclosures had been made. During the Financial Year, the Audit Committee also reviewed the interim report and internal control system of the Company.

The Audit Committee held 3 meetings during the Financial Year with attendance record as follows:

Attendance at Audit Committee meeting	**Number of meetings attended (3 meetings in total)**
Mr. Yao Yan	2
Mr. Lau Siu Ki, Kevin	3
Mr. Liu Cai	2

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

The Company always endeavours to improve transparency and accountability to its shareholders in the best possible way. Immediately after reporting its interim or annual results, the Company holds press conferences and investment analyst conferences where the financial performance, business review and prospect of the Group are presented. This also sets an open communications platform for the Group's senior management to address any questions that the investment community and the media may have. Web-cast presentation is then sent to shareholders and investors around the world to ensure information is disseminated on a fair and timely basis. The Company issues press releases and announcements where appropriate to provide updated information about the Group's business development in a timely manner. The Company also updates its website regularly to ensure information about its latest development is disseminated promptly.

During the Financial Year, the Group's senior management held road shows and attended investor conferences regularly. This provided the investment community with an opportunity to understand the business of the Group better. As a result of the investor relations activities undertaken, six securities companies initiated research coverage on the Company during the year.

In October 2006, Mr. Fok, the Group's Chairman and President, was named "Hong Kong CEO of the Year" at the CNBC Asia Business Leader Awards 2006. This award recognises him as an exceptional Hong Kong business leader whose vision and management abilities have helped steer the Company successfully in its home country and in the global marketplace.

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The Board has therefore set up an Internal Audit Department to assist the Board and the Audit Committee to ensure that the Company maintains a sound system of internal controls.

The Head of Internal Audit Department has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. During the Financial Year, the Head of Internal Audit Department attended the Audit Committee meetings and highlighted and explained any material issues in relation to the Company's financial statements.

The Company engaged an independent accounting firm to assist the Internal Audit Department to carry out the review of the major business units at Guangzhou operation. Key business processes were covered under the review, and the Internal Audit Department reported the results of the findings and recommendations on the internal control system reviewed. The Audit Committee reviewed the report submitted by Internal Audit Department, and based on the findings and recommendations on internal control review performed and the rectification steps planned or taken by the management on the internal control weaknesses identified, carried out an assessment on the effectiveness of the material internal controls of the Group, including financial, operational and compliance controls and risk management, during the Financial Year. The Audit Committee is satisfied with the rectifications carried out by the management and the continuing efforts of improving the internal control systems within the Group.

AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. The Audit Committee considered and approved the engagement of Ernst & Young as auditors of the Company for the year ended 31 December 2006 and the corresponding audit fees estimation. During the Financial Year, the Group engaged auditors to perform audit service of approximately HK$2,009,000 and non-audit services (mainly including tax compliance service and interim review service) of approximately HK$535,000.

Report of the Directors

The directors of Comba Telecom Systems Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 93.

The directors recommend the payment of a final dividend of HK4.5 cents per ordinary share in respect of the year (2005: HK3 cents per ordinary share) to shareholders on the register of members on 23 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. No interim dividend was paid for the year ended 31 December 2006 (2005: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 94. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 30 and 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$432,784,000 of which HK$37,818,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$340,570,000, may be distributed, provided immediately following the date on which the distribution or dividend proposed to be paid, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for more than 90% of the total sales for the year and sales to the largest customer included therein amounted to approximately 68%. Purchases from the Group's five largest suppliers accounted for less than 23% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Fok Tung Ling (Chairman and President)	("Mr. Fok")
Mr. Zhang Yue Jun	("Mr. Zhang")
Mr. Chan Kai Leung, Clement	("Mr. Chan")
Mr. Wu Jiang Cheng	("Mr. Wu")
Mr. Yan Ji Ci	("Mr. Yan")
Mr. Zheng Guo Bao	("Mr. Zheng")
Mr. Yeung Pui Sang, Simon	("Mr. Yeung")

Independent non-executive directors:

Mr. Yao Yan	("Mr. Yao")
Mr. Lau Siu Ki, Kevin	("Mr. Lau")
Mr. Liu Cai	("Mr. Liu")

In accordance with article 87(1) of the Company's articles of association, Mr. Zhang, Mr. Yao, Mr. Lau, and Mr. Liu will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All the independent non-executive directors are appointed for a term of one year.

The Company has received annual confirmations of independence from Mr. Yao, Mr. Lau, and Mr. Liu as at the date of this report and considers them to be independent.

BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 20 to 27 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors (except Mr. Zheng and Mr. Yeung) has entered into a service contract with the Company for an initial term of three years which commenced on 1 July 2003, and will continue thereafter until terminated by either party giving not less than six month's written notice. As these contracts were entered into on or before 31 January 2004, they are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Mr. Zheng has entered into a service contract with the Company for an initial term of two years which commenced on 30 March 2006. Mr. Yeung has entered into a service contract with the Company for an initial term of 18 months which commenced on 7 April 2005 and will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other.

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are reviewed by the Company's remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
Name of director	Notes	Directly beneficially owned	Through controlled corporation	Total	
Mr. Fok	(a)	8,248,000	437,954,000	446,202,000	53.09
Mr. Zhang	(b)	–	117,000,000	117,000,000	13.92
Mr. Chan	(c)	666,000	–	666,000	0.08
Mr. Wu	(c)	1,800,000	–	1,800,000	0.21
Mr. Yan	(c)	1,700,000	–	1,700,000	0.20
Mr. Zheng		1,450,000	–	1,450,000	0.17
Mr. Yeung	(c)	500,000	–	500,000	0.06
		14,364,000	554,954,000	569,318,000	67.73

Notes:

(a) 394,156,000 shares and 43,798,000 shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("Total Master"), respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in the total of 437,954,000 shares owned by Prime Choice and Total Master.

(b) These shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 117,000,000 shares owned by Wise Logic.

(c) Each of Mr. Chan and Mr. Wu has share options in respect of 2,000,000 ordinary shares. Mr. Yan has share options in respect of 1,700,000 ordinary shares. Mr. Yeung has share options in respect of 4,000,000 ordinary shares. Details of these share options are disclosed in note 31 to the financial statements.

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2006, none of the directors had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 31 to the financial statements.

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

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Prime Choice		Beneficial owner	394,156,000	46.90
Total Master		Beneficial owner	43,798,000	5.21
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	446,202,000	53.09
Wise Logic		Beneficial owner	117,000,000	13.92
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	117,000,000	13.92

Notes:

(a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 446,202,000 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.

(b) Mdm. Cai is the spouse of Mr. Zhang and is deemed to be interested in the 117,000,000 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

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

(i) 394,156,000 shares between Prime Choice and Mdm. Chen;

(ii) 43,798,000 shares between Total Master and Mdm. Chen; and

(iii) 117,000,000 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

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

Connected transaction

On 20 June 2006, the Lender, Cascade Technology Limited, and the Borrower, WaveLab Holdings Limited ("WaveLab Holdings"), entered into a loan agreement ("Agreement") pursuant to which the Lender agreed to lend a principal amount of US$650,000 (equivalent to approximately HK$5,070,000) ("the Loan") to the Borrower subject to the terms and conditions of the Agreement as follows.

The Loan became available for drawing by the Borrower at any time during the period from the date of the Agreement and ended on 31 December 2006. If the Loan had not been drawn by the Borrower before the last day of the above availability period, the Loan would have ceased to be available for drawing and the Agreement would have forthwith terminated.

The Borrower had been paying interest on the Loan at a rate of LIBOR at the date of drawing plus 1.25 per cent per annum. The interest period of the Loan was 12 calendar months and thereafter, the Lender may, at any time upon giving notice in writing, demand repayment of the Loan in full or in part of up to the outstanding Loan not yet repaid and/or payment of any part of the interest accrued thereon as at the date of the written demand of the Lender.

Unless otherwise agreed by the Lender, the Loan was applied by the Borrower for the purpose of increasing the registered capital of WaveLab Telecom Equipment (Guangzhou) Limited ("WaveLab Guangzhou"), a wholly-owned subsidiary of the Borrower and a non wholly-owned subsidiary of the Company and a member of the Group.

The Lender is a wholly-owned subsidiary of the Company and 60% of the entire issued share capital of the Borrower is owned by the Lender. The Borrower is hence a non wholly-owned subsidiary of the Company. As Mr. Zheng, an executive director and a connected person of the Company, is a shareholder of the Borrower holding 32% of the issued share capital of the Borrower, the Borrower (being a non wholly-owned subsidiary of the Company and an associate of Mr. Zheng) is a connected person of the Company under the Listing Rules. To the knowledge of the Company, the remaining 8% of the issued share capital of the Borrower is held by third parties who are independent of and not connected with the directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or its subsidiaries or any of their respective associates.

To the knowledge of the Company, no loan agreement (other than the Loan) had been made between the Borrower and its shareholders (excluding the Lender) pursuant to the Agreement.

The directors (including the independent non-executive directors) are of the view that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Continuing connected transaction under conditional waiver from strict compliance under Rule 14.26 of the Old Listing Rules

Comba Telecom Systems (Guangzhou) Limited ("Comba Systems Guangzhou") and WaveLab Guangzhou were connected persons in relation to the Company for the following reasons:

(a) Being an executive director of the Company, Mr. Zheng is a connected person in relation to the Company at the Company's level and Mr. Zheng is entitled to exercise more than 10% of the voting power at the general meeting of WaveLab Holdings, WaveLab Holdings is a non wholly-owned subsidiary of the Company which falls within the meaning of Rule 14A.11(5) of the Listing Rules. As such, WaveLab Holdings is a connected person in relation to the Company. In addition, since Mr. Zheng has a shareholding of more than 30% in WaveLab Holdings, WaveLab Holdings is also an associate of Mr. Zheng and hence a connected person in relation to the Company.

(b) Comba Systems Guangzhou is a wholly-owned subsidiary of the Company. Likewise, WaveLab Guangzhou, a wholly foreign owned enterprise established under the laws of the PRC, is also a wholly-owned subsidiary of WaveLab Holdings. Therefore Comba Systems Guangzhou and WaveLab Guangzhou are also connected persons in relation to the Company under the Listing Rules.

On 1 March 2004, Comba Systems Guangzhou entered into an agreement (the "Product Sales Agreement") with WaveLab Guangzhou pursuant to which WaveLab Guangzhou agreed to sell outdoor units and other products used in connection with microwave transmission (the "Products") to Comba Systems Guangzhou and to grant Comba Systems Guangzhou the sole and exclusive right to sell the Products in the Mainland China, Hong Kong and Macau for a term of three years expiring 28 February 2007. The price of the Products is to be agreed between WaveLab Guangzhou and Comba Systems Guangzhou in writing from time to time. Comba Systems Guangzhou intended to integrate most, if not all, of the Products acquired with the products of Comba Systems Guangzhou.

The entering into of the Product Sales Agreement and the sale and purchase of the Products contemplated thereunder (the "Transactions") constituted continuing connected transactions of the Company falling under Rule 14.26 of the Listing Rules in force prior to the amendments which took effect on 31 March 2004 (the "Old Listing Rules").

On 30 March 2004, the Stock Exchange granted to the Company a waiver from strict compliance with the requirements of Rule 14.26 of the Old Listing Rules that the written approval of the Product Sales Agreement and the Transactions by the Company's controlling shareholder, Mr. Fok, would be accepted in lieu of holding a physical shareholders' meeting. The Stock Exchange also granted to the Company a conditional waiver (the "Waiver") from strict compliance with the requirements of Rule 14.26 of the Old Listing Rules in respect of the three financial years ended 31 December 2006. These conditions and further details of the Products Sales Agreement were set out in the announcement issued by the Company on 1 March 2004.

For the year ended 31 December 2006, the total actual expenditure in respect of the Products purchased by Comba Systems Guangzhou pursuant to the Transactions amounted to approximately HK$29,680,000 (2005: HK$6,268,000).

In accordance with the conditions of the Waiver, the directors (including the independent non-executive directors) of the Company have reviewed the Transactions and confirm that:

(i) the Transactions were entered into in the ordinary and usual course of business of the Group; conducted on normal commercial terms, or (where there is no sufficient comparable transactions to judge whether they are on normal commercial terms) on terms no less favourable to the Group than terms available to or from independent third parties; and conducted, in accordance with the Product Sales Agreement, on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and

(ii) the total annual expenditure in respect of the Products purchased by Comba Systems Guangzhou pursuant to the Transactions in the financial year ended 31 December 2006 did not exceed HK$208 million, being the cap amount as stated in the Waiver for the financial year ended 31 December 2006 (the "Cap Amount").

The auditors of the Company have also reviewed the Transactions and confirmed to the Board in writing that:

(i) the Transactions have been approved by the Board;

(ii) the Transactions have been entered into in accordance with the Product Sales Agreement; and

(iii) the aggregate value of the Transactions in respect of in the financial year ended 31 December 2006 did not exceed the Cap Amount.

According to the transitional arrangements announced regarding the amendments of Listing Rules which took effect on 31 March 2004, the Waiver, which has been granted to the Company for a fixed period, shall continue to apply until the earlier of (1) the expiry of the Waiver and (2) the Company falling to comply with any of the conditions of the Waiver or the Product Sales Agreement being renewed or there being a material change to the terms of the Product Sales Agreement.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Fok Tung Ling
Chairman and President

Hong Kong
12 April 2007

Independent Auditors' Report

ERNST & YOUNG
安 永 會 計 師 事 務 所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓
電話：(852) 2846 9888
傳真：(852) 2868 4432

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

We have audited the financial statements of Comba Telecom Systems Holdings Limited set out on pages 41 to 93, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants

Hong Kong
12 April 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	1,550,441	1,170,515
Cost of sales		(963,901)	(696,189)
Gross profit		586,540	474,326
Other income and gain	5	11,799	8,851
Research and development costs		(76,267)	(62,509)
Selling and distribution costs		(100,215)	(86,955)
Administrative expenses		(251,199)	(223,000)
Other expenses		(6,954)	(3,454)
Finance costs	7	(15,918)	(21,480)
PROFIT BEFORE TAX	6	147,786	85,779
Tax	9	(16,561)	(7,315)
PROFIT FOR THE YEAR		131,225	78,464
Attributable to:			
Equity holders of the parent	10	131,140	82,089
Minority interests		85	(3,625)
		131,225	78,464
DIVIDEND	11		
Proposed final		37,818	24,991
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	12		
Basic		15.69	9.86
Diluted		15.55	9.75

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**257,724**	172,380
Prepaid land lease payments	14	**13,220**	13,040
Goodwill	15	**21,916**	21,916
Deferred tax assets	16	**34,232**	19,318
Other intangible assets	17	**5,250**	8,242
Restricted bank deposits	24	**1,629**	–
Total non-current assets		**333,971**	234,896
CURRENT ASSETS			
Inventories	19	**617,789**	572,948
Trade receivables	20	**840,426**	618,290
Notes receivable	21	**33,754**	35,585
Factored trade receivables	22	**–**	115,296
Prepayments, deposits and other receivables	23	**97,395**	112,807
Restricted bank deposits, short term time deposits and pledged time deposits	24	**480**	178,296
Cash and cash equivalents	24	**492,737**	314,118
Total current assets		**2,082,581**	1,947,340
CURRENT LIABILITIES			
Trade and bills payables	25	**500,776**	356,753
Other payables and accruals	26	**307,756**	284,036
Interest-bearing bank loans	27	**152,908**	190,723
Bank advances on factored trade receivables	22	**–**	115,296
Current portion of finance lease payables	28	**–**	180
Tax payable		**22,214**	18,867
Provision for product warranties	29	**26,039**	21,066
Total current liabilities		**1,009,693**	986,921
NET CURRENT ASSETS		**1,072,888**	960,419
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,406,859**	1,195,315
Net assets		**1,406,859**	1,195,315

	Notes	2006 HK$'000	2005 HK$'000
Net assets		1,406,859	1,195,315
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	30	84,041	83,302
Reserves	32(a)	1,277,258	1,079,365
Proposed final dividend	11	37,818	24,991
		1,399,117	1,187,658
Minority interests		7,742	7,657
Total equity		1,406,859	1,195,315

Fok Tung Ling
Director

Chan Kai Leung, Clement
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

		Attributable to equity holders of the parent											
	Notes	Issued share capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005		83,273	318,524	21,042	46,510	990	46,832	(2,638)	544,816	41,637	1,100,986	11,282	1,112,268
Arising on revaluation of land and buildings	13	–	–	–	–	1,489	–	–	–	–	1,489	–	1,489
Exchange realignment		–	–	–	–	–	–	27,196	–	–	27,196	–	27,196
Total income and expense recognised directly in equity		–	–	–	–	1,489	–	27,196	–	–	28,685	–	28,685
Profit for the year		–	–	–	–	–	–	–	82,089	–	82,089	(3,625)	78,464
Total income and expense for the year		–	–	–	–	1,489	–	27,196	82,089	–	110,774	(3,625)	107,149
Final 2004 dividend declared		–	–	–	–	–	–	–	–	(41,651)	(41,651)	–	(41,651)
Issue of new shares	30	29	624	–	–	–	–	–	–	–	653	–	653
Equity-settled share option expenses		–	–	16,896	–	–	–	–	–	–	16,896	–	16,896
Under-provision of final 2004 dividend		–	–	–	–	–	–	–	(14)	14	–	–	–
Proposed final 2005 dividend	11	–	–	–	–	–	–	–	(24,991)	24,991	–	–	–
Transfer from retained profits	32(a)	–	–	–	–	–	23,824	–	(23,824)	–	–	–	–
At 31 December 2005		83,302	319,148	37,938	46,510	2,479	70,656	24,558	578,076	24,991	1,187,658	7,657	1,195,315

		Attributable to equity holders of the parent											
	Notes	Issued share capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006		83,302	319,148	37,938	46,510	2,479	70,656	24,558	578,076	24,991	1,187,658	7,657	1,195,315
Arising on revaluation of land and buildings	13	–	–	–	–	20,173	–	–	–	–	20,173	–	20,173
Exchange realignment		–	–	–	–	–	–	54,020	–	–	54,020	–	54,020
Total income and expense recognised directly in equity		–	–	–	–	20,173	–	54,020	–	–	74,193	–	74,193
Profit for the year		–	–	–	–	–	–	–	131,140	–	131,140	85	131,225
Total income and expense for the year		–	–	–	–	20,173	–	54,020	131,140	–	205,333	85	205,418
Final 2005 dividend declared		–	–	–	–	–	–	–	–	(25,059)	(25,059)	–	(25,059)
Issue of new shares	30	739	21,422	(5,506)	–	–	–	–	–	–	16,655	–	16,655
Equity-settled share option expenses		–	–	14,530	–	–	–	–	–	–	14,530	–	14,530
Under-provision of final 2005 dividend		–	–	–	–	–	–	–	(68)	68	–	–	–
Proposed final 2006 dividend	11	–	–	–	–	–	–	–	(37,818)	37,818	–	–	–
Transfer from retained profits	32(a)	–	–	–	–	–	666	–	(666)	–	–	–	–
At 31 December 2006		**84,041**	**340,570***	**46,962***	**46,510***	**22,652***	**71,322***	**78,578***	**670,664***	**37,818**	**1,399,117**	**7,742**	**1,406,859**

* These reserve accounts comprise the consolidated reserves of HK$1,277,258,000 (2005: HK$1,079,365,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		147,786	85,779
Adjustments for:			
Interest income	5	(4,374)	(6,125)
Finance costs	7	15,918	21,480
Depreciation	6	34,138	29,565
Recognition of prepaid land lease payments	6	305	292
Amortisation of intangible assets	6	3,702	2,595
Loss on disposal of items of property, plant and equipment	6	48	670
Equity-settled share option expenses		14,530	16,896
		212,053	151,152
Increase in inventories		(44,841)	(56,298)
Increase in trade receivables		(222,136)	(123,114)
Decrease in notes receivable		11,807	3,733
Decrease/(increase) in prepayments, deposits and other receivables		15,425	(26,355)
Increase in trade and bills payables		134,047	64,344
Increase in other payables and accruals		23,720	34,898
Increase in provision for product warranties		4,186	6,866
Increase in restricted bank deposits		(2,109)	–
Decrease/(increase) in factored trade receivables		115,296	(115,296)
Increase/(decrease) in bank advances on factored trade receivables		(115,296)	115,296
Cash generated from operations		132,152	55,226
PRC profits tax paid		(27,555)	(10,030)
Overseas taxes paid		(310)	–
Net cash inflow from operating activities		104,287	45,196
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		4,374	6,125
Purchases of items of property, plant and equipment	13	(93,773)	(64,667)
Acquisition of intangible assets	17	(410)	(6,952)
Proceeds from disposal of items of property, plant and equipment		1,273	2,719
Decrease in short term time deposits and pledged time deposits	24	178,296	89,237
Net cash inflow from investing activities		89,760	26,462

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Net cash inflow from investing activities		89,760	26,462
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	30	16,655	653
New bank loans		124,589	367,645
Repayment of bank loans		(167,771)	(334,704)
Capital element of finance lease rental payments		(180)	(180)
Interest paid		(15,904)	(21,460)
Interest element on finance lease rental payments		(14)	(20)
Dividends paid		(25,059)	(41,651)
Net cash outflow from financing activities		(67,684)	(29,717)
NET INCREASE IN CASH AND CASH EQUIVALENTS		126,363	41,941
Cash and cash equivalents at beginning of year		314,118	248,766
Effect of foreign exchange rate changes, net		52,256	23,411
CASH AND CASH EQUIVALENTS AT END OF YEAR		492,737	314,118
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	491,055	312,501
Non-pledged time deposits with original maturity of less than three months when acquired	24	1,682	1,617
		492,737	314,118

Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**374,295**	375,161
Loan to subsidiary	18	**235,615**	–
Total non-current assets		**609,910**	375,161
CURRENT ASSETS			
Due from subsidiaries	18	**291,200**	481,256
Prepayments, deposits and other receivables	23	**243**	63
Cash and cash equivalents	24	**7,583**	4,027
Total current assets		**299,026**	485,346
CURRENT LIABILITIES			
Other payables and accruals	26	**3,392**	1,959
NET CURRENT ASSETS		**295,634**	483,387
TOTAL ASSETS LESS CURRENT LIABILITIES		**905,544**	858,548
NON-CURRENT LIABILITIES			
Financial guarantee contracts	33	**1,187**	2,053
Net assets		**904,357**	856,495
EQUITY			
Issued capital	30	**84,041**	83,302
Reserves	32(b)	**782,498**	748,202
Proposed final dividend	11	**37,818**	24,991
Total equity		**904,357**	856,495

Fok Tung Ling
Director

Chan Kai Leung, Clement
Director

Notes to Financial Statements

31 December 2006

1. CORPORATE 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 Units 1503-1510, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") principally engaged in the research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") 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 Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. During the current and prior years, the Company provided guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Upon the adoption of this amendment, the Company is required to recognise these financial guarantee contracts as financial liabilities. The change in accounting policy has been recognised since 1 January 2005 when HKAS 39 was initially adopted by the Company and the comparative amounts for the year ended 31 December 2005 have been restated. As it is not practicable to estimate the fair values and consequential effect on reported net assets of the change in accounting policies in respect of the financial guarantees issued prior to 1 January 2005, the adjustments to reflect the change in accounting policy have been made as at 31 December 2005. A summary of the impact of the changes are set out below.

	31 December HK$'000
Company balance sheet at 31 December 2005 and 1 January 2006	
Increase in interests in subsidiaries	2,053
Increase in financial guarantee liabilities	(2,053)
	–
Company balance sheet at 31 December 2006	
Decrease in interests in subsidiaries	(866)
Decrease in financial guarantee liabilities	866
	–

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(c) HKAS 39 *Financial Instruments: Recognition and Measurement* (continued)

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangement

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The Standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 ,1 November 2006, 1 March 2007 and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets and liabilities acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

Goodwill on acquisitions for which the agreement date is on or after January 2005 (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to Financial Statements
31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

Buildings	Over the shorter of lease terms and 20 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of a fixed asset recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction ,which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Computer software

The ERP system and purchased computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal annual rates used for this purpose are as follows:

ERP system	3 years
Computer software	5 to 10 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure, which does not meet these criteria, is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Financial liabilities at amortised cost (including interest-bearing bank loans)

Financial liabilities including trade and other payables and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

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

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

– in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension schemes and other retirement benefits

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

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

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

Impairment allowances for trade and other receivables

Impairment allowances for trade and other receivables are made on assessment of the recoverability of trade and other receivables. The identification of impairment allowances requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying value of the receivables and impairment or its reversal in the period in which such estimate has been changed.

Impairment of property, plant, and equipment

The Group tests annually whether property, plant, and equipment have suffered any impairment, in accordance with the accounting policy stated in note 2.4. The recoverable amounts of cash-generating units have been determined based on a value-in-use calculation. These calculations require the use of estimates such as the future revenue and discount rates.

3. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was approximately HK$21,916,000 (2005: HK$21,916,000). More details are given in note 15.

Provisions for product warranties

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

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group principally engages in the manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single business segment.

In addition, the Group's revenue, profit, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is Mainland China. Therefore, no analysis of business or geographical segment is presented.

5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered during the year, net of value-added tax, and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	2006 HK$'000	2005 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	1,550,441	1,170,515
Other income and gain		
Bank interest income	4,374	6,125
Exchange gain, net	5,280	–
Others	2,145	2,726
	11,799	8,851

Notes to Financial Statements
31 December 2006

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold and services provided		937,958	674,558
Depreciation	13	34,138	29,565
Recognition of prepaid land lease payments	14	305	292
Amortisation of intangible assets	17	3,702	2,595
Minimum lease payments under operating leases in respect of land and buildings		30,828	28,968
Auditors' remuneration		2,480	2,354
Employee benefits expense (excluding directors' emoluments, note 8):			
Salaries and wages		230,779	187,041
Staff welfare expenses		22,004	12,865
Equity-settled share option expense		12,672	16,896
Pension scheme contributions#		18,484	15,389
		283,939	232,191
Provision for impairment of trade receivables		6,412	1,713
Provision for product warranties	29	25,943	21,631
Loss on disposal of items of property, plant and equipment		48	670

At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).

7. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest on bank loans wholly repayable within one year	13,126	12,729
Interest on finance leases	14	20
Finance costs on the factored trade receivables	2,778	8,731
	15,918	21,480

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Fees	539	440
Other emoluments:		
Salaries, allowances and benefits in kind	10,282	9,343
Performance related bonuses*	3,665	5,375
Employee share option benefits	1,858	1,402
Pension scheme contributions	195	180
	16,000	16,300
	16,539	16,740

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

During the year, no director has been granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Mr. Yao Yan	120	120
Mr. Lau Siu Ki, Kevin	120	120
Mr. Liu Cai	200	200
	440	440

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

Notes to Financial Statements
31 December 2006

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(b) Executive directors

2006 Executive directors:	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Mr. Fok	–	2,003	641	–	12	2,656
Mr. Zhang	–	1,605	643	–	39	2,287
Mr. Chan	–	1,498	203	164	12	1,877
Mr. Wu	–	1,202	887	164	39	2,292
Mr. Yan	–	1,035	870	164	39	2,108
Mr. Zheng	99	1,402	–	–	42	1,543
Mr. Yeung	–	1,537	421	1,366	12	3,336
	99	10,282	3,665	1,858	195	16,099

2005 Executive directors:	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Mr. Fok	1,934	1,149	–	12	3,095
Mr. Zhang	1,502	939	–	36	2,477
Mr. Chan	1,412	315	287	12	2,026
Mr. Wu	1,068	756	287	36	2,147
Mr. Yan	940	661	287	38	1,926
Mr. Zheng	1,344	–	–	37	1,381
Mr. Yeung	1,143	1,555	541	9	3,248
	9,343	5,375	1,402	180	16,300

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(c) Five highest paid employees

The five highest paid employees during the year included four (2005: five) directors, details of whose remuneration are set out in above. Details of the remuneration of the remaining one non-director, highest paid employee for the year are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**1,436**	–
Employee share option benefits	**656**	–
Pension scheme contributions	**42**	–
	2,134	–

During the year, no share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

9. TAX

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006 HK$'000	2005 HK$'000
Current year provision:		
Hong Kong	**–**	–
Elsewhere:		
Mainland China	**29,954**	26,329
Overseas	**484**	304
Deferred tax (note 16)	**(13,877)**	(19,318)
Total tax charge for the year	**16,561**	7,315

9. TAX (CONTINUED)

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and approved by the relevant tax authorities, Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou"), a wholly-owned subsidiary of the Company operating in Mainland China was exempted from PRC corporate income tax for the two years commencing from its first profit-making year from 1 January 2000 to 31 December 2001 and thereafter was entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years from 1 January 2002 to 31 December 2004.

In addition, Comba Guangzhou was designated as an advanced technology foreign investment enterprise by the Guangzhou Foreign Trade and Economic Cooperation Bureau in August 2004. Under the current PRC tax legislation, upon expiry of its tax holiday, a foreign investment enterprise of advanced technology is entitled to the preferential tax rate at 50% of the applicable standard rate, subject to a minimum rate of 10%, for another three years. During the year, provision for the PRC corporate income tax for Comba Guangzhou has been made at the applicable reduced tax rate of 10%.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), another subsidiary of the Company established in the PRC, was entitled to an exemption from PRC corporate income tax for the two years commencing from its first profit-making year of 1 January 2003 to 31 December 2004 and thereafter was entitled to a 50% reduction in PRC corporate income tax for the subsequent three years from 1 January 2005 to 31 December 2007.

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	2006		2005	
	HK$'000	%	HK$'000	%
Profit before tax	**147,786**		85,779	
Tax at the applicable rate	**22,168**	**15.0**	12,867	15.0
Net expenses not deductible for tax	**7,427**	**5.0**	3,698	4.3
Tax losses not recognised	**15,212**	**10.3**	9,837	11.5
Tax exemptions	**(28,246)**	**(19.1)**	(19,087)	(22.3)
Tax charge at the Group's effective rate	**16,561**	**11.2**	7,315	8.5

The Group has tax losses arising in Hong Kong and other countries of HK$101,413,000 (2005: HK$65,579,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2006.

At 31 December 2006, there were no significant unrecognised deferred tax liabilities (2005: Nil).

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

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$41,736,000 (2005: HK$39,046,000) which has been dealt with in the financial statements of the Company (note 32(b)).

11. DIVIDEND

	2006 HK$'000	2005 HK$'000
Proposed final - HK4.5 cents (2005: HK3 cents) per ordinary share	37,818	24,991

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

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the 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 per share are based on:

	2006 HK$'000	2005 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	131,140	82,089

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	835,860,000	832,918,000
Effect of dilution - weighted average number of ordinary shares	7,524,000	8,595,000
	843,384,000	841,513,000

Notes to Financial Statements
31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost or valuation	37,241	107,867	50,395	11,263	33,894	240,660
Accumulated depreciation	(792)	(39,847)	(21,390)	(6,251)	–	(68,280)
Net carrying amount	36,449	68,020	29,005	5,012	33,894	172,380
At 1 January 2006, net of accumulated depreciation	36,449	68,020	29,005	5,012	33,894	172,380
Additions	538	34,847	10,720	2,573	45,095	93,773
Surplus on revaluation	20,173	–	–	–	–	20,173
Disposals	(171)	(321)	(612)	(217)	–	(1,321)
Provided during the year	(2,399)	(19,748)	(10,001)	(1,990)	–	(34,138)
Transfer	80,255	–	–	–	(80,255)	–
Exchange realignment	1,778	2,605	1,047	161	1,266	6,857
At 31 December 2006, net of accumulated depreciation	**136,623**	**85,403**	**30,159**	**5,539**	**–**	**257,724**
At 31 December 2006:						
Cost or valuation	137,465	146,527	62,242	13,951	–	360,185
Accumulated depreciation	(842)	(61,124)	(32,083)	(8,412)	–	(102,461)
Net carrying amount	136,623	85,403	30,159	5,539	–	257,724
Analysis of cost or valuation:						
At cost	2,867	146,527	62,242	13,951	–	225,587
At valuation	134,598	–	–	–	–	134,598
	137,465	146,527	62,242	13,951	–	360,185

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost or valuation	33,960	85,917	39,198	10,856	8,734	178,665
Accumulated depreciation	(201)	(25,300)	(11,908)	(5,263)	–	(42,672)
Net carrying amount	33,759	60,617	27,290	5,593	8,734	135,993
At 1 January 2005, net of accumulated depreciation	33,759	60,617	27,290	5,593	8,734	135,993
Additions	1,796	23,423	11,896	1,507	26,045	64,667
Surplus on revaluation	1,489	–	–	–	–	1,489
Disposals	–	(2,163)	(947)	(279)	–	(3,389)
Provided during the year	(2,680)	(15,317)	(9,661)	(1,907)	–	(29,565)
Transfer	1,057	–	–	–	(1,057)	–
Exchange realignment	1,028	1,460	427	98	172	3,185
At 31 December 2005, net of accumulated depreciation	36,449	68,020	29,005	5,012	33,894	172,380
At 31 December 2005:						
Cost or valuation	37,241	107,867	50,395	11,263	33,894	240,660
Accumulated depreciation	(792)	(39,847)	(21,390)	(6,251)	–	(68,280)
Net carrying amount	36,449	68,020	29,005	5,012	33,894	172,380
Analysis of cost or valuation:						
At cost	3,679	107,867	50,395	11,263	33,894	207,098
At valuation	33,562	–	–	–	–	33,562
	37,241	107,867	50,395	11,263	33,894	240,660

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2006 amounted to Nil (2005: HK$303,000).

Notes to Financial Statements
31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's leasehold land and buildings were revalued individually at the balance sheet date, by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an open market value of HK$134,598,000 in aggregate based on their existing use. Had these leasehold land and buildings been stated at cost less accumulated depreciation, the amount would have been approximately HK$113,130,000 at the balance sheet date. At 31 December 2006, the Group's leasehold land and buildings have been stated at valuation, except that certain land and buildings situated in Mainland China, which are in the process of applying for the transfer of the legal title, were carried at cost with a net book value of approximately HK$1,766,000. A revaluation surplus of HK$20,173,000, resulting from the above valuations, has been credited to the asset revaluation reserve.

The Group's buildings are situated in Mainland China and are held under the following lease terms:

	2006 HK$'000	2005 HK$'000
At valuation:		
Long term leases	6,280	3,432
Medium term leases	128,318	30,130
	134,598	33,562
At cost:		
Long term leases	2,867	3,679
	137,465	37,241

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2006 HK$'000	2005 HK$'000
Carrying amount at 1 January	13,332	13,327
Recognised during the year	(305)	(292)
Exchange realignment	498	297
Carrying amount at 31 December	13,525	13,332
Current portion included in prepayments, deposits and other receivables	(305)	(292)
Non-current portion	13,220	13,040

The leasehold land is held under a long term lease and is situated in Mainland China.

15. GOODWILL

Group	HK$'000
Cost and net carrying amount at 1 January 2005 and 31 December 2005	21,916

Group	HK$'000
Cost and net carrying amount at 1 January 2006 and 31 December 2006	21,916

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the digital microwave system ("DMS") products cash-generating unit for impairment testing.

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 20%.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are before tax and reflect specific risks relating to the relevant units.

16. DEFERRED TAX ASSETS

The movements in deferred tax assets during the year are as follows:

	Group	
	2006 **HK$'000**	2005 HK$'000
Deferred tax assets:		
At beginning of year	**19,318**	–
Deferred tax credited to the income statement during the year (note 9)	**13,877**	19,318
Exchange realignment	**1,037**	–
At end of year	**34,232**	19,318

	Group	
	2006 **HK$'000**	2005 HK$'000
Deferred tax assets:		
Unrealised profit arising on consolidation	**34,232**	19,318

17. OTHER INTANGIBLE ASSETS

Group	Computer software HK$'000
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	8,242
Additions	410
Amortisation provided during the year	(3,702)
Exchange realignment	300
At 31 December 2006	**5,250**
At 31 December 2006:	
Cost	14,052
Accumulated amortisation	(8,802)
Net carrying amount	5,250
31 December 2005	
At 1 January 2005:	
Cost	6,080
Accumulated amortisation	(2,273)
Net carrying amount	3,807
Cost at 1 January 2005, net of accumulated amortisation	3,807
Additions	6,952
Amortisation provided during the year	(2,595)
Exchange realignment	78
At 31 December 2005	8,242
At 31 December 2005 and at 1 January 2006:	
Cost	13,161
Accumulated amortisation	(4,919)
Net carrying amount	8,242

18. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000 (Restated)
Unlisted shares, at cost	**373,108**	373,108
Financial guarantees granted to subsidiaries (note 33)	**1,187**	2,053
	374,295	375,161

The amounts due from subsidiaries included in the Company's current assets of HK$291,200,000 (2005: HK$481,256,000) are unsecured, interest-free and are repayable on demand or within one year. The loan to subsidiary included in the Company's non-current assets of HK$235,615,000 (2005: Nil) is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Company's directors, the loan is considered as quasi-equity loan to the subsidiary. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands	US$100	100	–	Investment holding
Praises Holdings Limited	British Virgin Islands	US$100	–	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	–	100	Investment holding and trading
Comba Telecom Systems (Guangzhou) Limited 京信通信系統(廣州)有限公司*	PRC/Mainland China	HK$45,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services

Notes to Financial Statements
31 December 2006

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba Telecom Technology (Guangzhou) Limited 京信通信技術(廣州)有限公司*	PRC/Mainland China	HK$65,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Telecom Systems (China) Limited 京信通信系統(中國)有限公司*	PRC/Mainland China	USD13,865,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Guangzhou Telink Telecom Equipment Co., Ltd. 廣州泰聯電訊設備有限公司*	PRC/Mainland China	HK$1,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Telecom Systems International Limited	British Virgin Islands	US$1	–	100	Investment holding
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	S$2	–	100	Provision of marketing services
Cascade Technology Limited	British Virgin Islands	US$1	–	100	Investment holding

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
WaveLab Holdings Limited	Cayman Islands	US$1,000	–	60	Investment holding
WaveLab, Inc.	State of Virginia/ United States of America	No par value	–	60	Research and development of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US$1	–	60	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備(廣州)有限公司 *	PRC/Mainland China	US$2,400,000	–	60	Manufacture and sale of digital microwave system equipment
Honour Mission Group Limited	British Virgin Islands	US$1	–	100	Investment holding
Team Victory Limited	British Virgin Islands	US$1	–	100	Investment holding
Telink Telecom Holdings Limited	British Virgin Islands	US$1	–	100	Investment holding
Telink Telecom (China) Limited 泰聯電訊(中國)有限公司*	PRC/Mainland China	HK$36,027,178	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment
DigiLab Holdings Company Limited	British Virgin Islands	US$1,000	–	63	Investment holding
DigiLab Company Limited 廣州高域通信技術有限公司*	PRC/Mainland China	HK$7,100,000	–	63	Manufacture and sale of transmission equipment

Notes to Financial Statements
31 December 2006

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Right Track Technology Limited	British Virgin Islands	US$1	–	100	Dormant
Comba Telecom Limited	Hong Kong	HK$2	–	100	Trading of wireless telecommunications network enhancement system equipment
Comba Telecom Co., Ltd.	Thailand	Baht980,000	-	100	Trading of wireless telecommunications network enhancement system equipment
Comban Telecom Systems AB	Sweden	SEK100,000	–	100	Provision of marketing services
Noblefield International Limited	British Virgin Islands	US$ 1	–	100	Investment holding
Comba Telecom Inc.	United States of America	US$ 1	–	100	Research and development of wireless telecommunications network enhancement system equipment
Comba Software Technology (Guangzhou) Ltd. 京信軟件科技(廣州)有限公司#*	PRC/Mainland China	HK$10,000,000	–	100	Provision of software technology services
Comba Comercio de Equipamentos de Telecomunicacoes Ltda#	Brazil	BRL226,957	–	100	Trading of wireless telecommunications network enhancement system equipment

Notes:

These subsidiaries were set up during the year.

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

19. INVENTORIES

	Group 2006 HK$'000	2005 HK$'000
Raw materials	61,228	55,402
Project materials	191,374	166,577
Work in progress	47,501	42,319
Finished goods	317,686	308,650
	617,789	572,948

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project and is generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods 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 minimise the credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group 2006 HK$'000	2005 HK$'000
Within 3 months	356,184	285,631
4 to 6 months	77,613	70,400
7 to 12 months	133,160	87,967
More than 1 year	294,408	188,750
	861,365	632,748
Provision for impairment	(20,939)	(14,458)
	840,426	618,290

21. NOTES RECEIVABLE

At 31 December 2006, the Group had endorsed commercial notes of approximately HK$9,976,000 to certain suppliers with recourse. The endorsed commercial notes were included in the above balance of notes receivable because the derecognition criteria for financial assets were not met.

Accordingly, the settlement to the relevant suppliers of approximately HK$9,976,000 received by the Group as consideration for the endorsed commercial notes at the balance sheet date were recognised as liabilities and included in "Trade and bills payables" (note 25).

Notes to Financial Statements
31 December 2006

22. FACTORED TRADE RECEIVABLES/BANK ADVANCES ON FACTORED TRADE RECEIVABLES

At 31 December 2005, a subsidiary of the Group factored trade receivables of HK$115,296,000 to banks on a without recourse basis for cash. As the subsidiary of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated balance sheet.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Prepayments	**31,927**	34,893	**–**	–
Deposits	**1,324**	156	**–**	–
Other receivables	**64,144**	77,758	**243**	63
	97,395	112,807	**243**	63

24. CASH AND CASH EQUIVALENTS, RESTRICTED BANK DEPOSITS, SHORT TERM TIME DEPOSITS AND PLEDGED DEPOSITS

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Cash and bank balances	**491,055**	312,501	**5,901**	2,410
Time deposits	**3,791**	179,913	**1,682**	1,617
	494,846	492,414	**7,583**	4,027
Less: Pledged time deposits for short term bank loans and undrawn facilities (note 27 (a))	**–**	(63,000)	**–**	–
Short term time deposits over three months	**–**	(115,296)	**–**	–
Restricted bank deposits for performance bonds	**(2,109)**	–	**–**	–
	(2,109)	(178,296)	**–**	–
Cash and cash equivalents	**492,737**	314,118	**7,583**	4,027

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$462,948,252 (2005: HK$403,972,759). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

25. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Within 3 months	335,996	279,504
4 to 6 months	88,319	45,472
7 to 12 months	50,418	13,674
More than 1 year	26,043	18,103
	500,776	356,753

The trade payables are non-interest-bearing and are mainly settled for a period of three months and is extendable up to two years. At 31 December 2006, the Group had endorsed commercial notes of approximately HK$9,976,000 to certain suppliers with recourse as settlement of the payable balance. The settlement to the relevant suppliers of approximately HK$9,976,000 were recognised as liabilities and included in the above balance (note 21).

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Accruals	79,594	68,842	2,230	1,940
Deposits received	116,462	97,230	–	–
Other payables	111,700	117,964	1,162	19
	307,756	284,036	3,392	1,959

Other payables are non-interest-bearing and are mainly settled for a period of three months and is extendable up to two years.

27. INTEREST-BEARING BANK LOANS

	Group	
	2006 HK$'000	2005 HK$'000
Bank loans, wholly repayable within one year:		
Secured	–	39,759
Unsecured	152,908	150,964
	152,908	190,723

27. INTEREST-BEARING BANK LOANS (CONTINUED)

Notes:

(a) The Group's bank loans are secured by the pledge of time deposits amounting to Nil (2005: HK$63,000,000) (note 24).

(b) At 31 December 2006, loans denominated in RMB amounted to HK$105,972,000 and loans denominated in Hong Kong dollars amounted to HK$46,936,000.

(c) The bank loans bear interest at rates ranging from 4.96% to 5.58% (2005: from 0.94% to 5.86%) per annum.

28. FINANCE LEASE PAYABLES

The Group acquired certain of its motor vehicles through hire purchase contracts of a financing nature. These hire purchase contracts are accounted for as finance leases and have remaining lease terms of one year.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments		Present value of minimum lease payments	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Amounts repayable:				
Within one year	–	200	–	180
In the second year	–	–	–	–
Total minimum finance lease payments	–	200	–	180
Future finance charges	–	(20)		
Total net finance lease payables	–	180		
Portion classified as current liabilities	–	(180)		
Long term portion	–	–		

29. PROVISIONS FOR PRODUCT WARRANTIES

	Group 2006 HK$'000	Group 2005 HK$'000
At beginning of the year	**21,066**	14,200
Additional provisions	**25,943**	21,631
Amounts utilised during the year	**(22,398)**	(15,343)
Exchange realignment	**1,428**	578
At end of year	**26,039**	21,066

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

30. SHARE CAPITAL

Shares	**2006 HK$'000**	2005 HK$'000
Authorised:		
5,000,000,000 (2005: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
840,411,000 (2005: 833,018,000) ordinary shares of HK$0.10 each	**84,041**	83,302

During the year, the subscription rights attaching to 7,393,000 share options were exercised at the subscription prices of HK$2.25 to HK$2.625 per share (note 31), resulting in issue of 7,393,000 shares of HK$0.10 each for a total cash consideration of HK$16,655,000.

30. SHARE CAPITAL (CONTINUED)

A summary of the transactions during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2005	832,728,000	83,273	318,524	401,797
Share options exercised	290,000	29	624	653
At 31 December 2005 and 1 January 2006	833,018,000	83,302	319,148	402,450
Share options exercised	7,393,000	739	21,422	22,161
At 31 December 2006	**840,411,000**	**84,041**	**340,570**	**424,611**

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors, including independent non-executive directors, employees, holders of any securities, business or joint venture partners, contractors, agents or representatives, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors and customers, licencees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholders or companies controlled by a Company's controlling shareholder. The Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

31. SHARE OPTION SCHEME (CONTINUED)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the average Stock Exchange closing price of the Company's shares for the number of trading days which have elapsed from the Listing Date; and (ii) the offer price, if the option is granted in five business days (including the Listing Date) before the offer; or (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer, if the option is granted in five business days (including the Listing Date) after the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to Financial Statements
31 December 2006

31. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 January 2006	Exercised during the year	Forfeited during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options ** HK$ per share	Price of Company's shares*** Immediately before the exercise date HK$ per share	Price of Company's shares*** At exercise date of options HK$ per share
Directors:									
Mr. Chan	2,000,000	–	–	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	N/A	N/A
Mr. Wu	2,000,000	–	–	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	N/A	N/A
Mr. Yan	2,000,000	300,000	–	1,700,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	3.10	3.25
Mr. Yeung	2,000,000	–	–	2,000,000	7 October 2004	7 November 2004 to 6 October 2009	3.65	N/A	N/A
	2,000,000	–	–	2,000,000	22 December 2005	22 December 2006 to 21 December 2010	2.625	N/A	N/A
	4,000,000	–	–	4,000,000					
Other employees:									
In aggregate	28,728,000	7,037,000	1,172,000	20,519,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	3.16	3.24
	26,090,000	–	1,340,000	24,750,000	27 May 2004	27 May 2005 to 26 May 2009	3.925	N/A	N/A
	15,786,000	56,000	820,000	14,910,000	22 December 2005	22 December 2006 to 21 December 2010	2.625	3.29	3.26
	70,604,000	7,093,000	3,332,000	60,179,000					
	80,604,000	7,393,000	3,332,000	69,879,000					

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

31. SHARE OPTION SCHEME (CONTINUED)

The 7,393,000 share options exercised during the year resulted in the issue of 7,393,000 ordinary shares of the Company and new share capital of HK$739,000 and share premium of HK$21,422,000, as detailed in note 30 to the financial statements.

At the balance sheet date, the Company had 69,879,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 69,879,000 additional ordinary shares of the Company and additional share capital of HK$6,988,000 and share premium of HK$160,863,000 (before issue expenses).

Subsequent to the balance sheet date, on 8 March 2007, a total of 6,600,000 share options were granted to certain employees of the Company in respect of their services to the Group in the forthcoming year. These share options vest on 8 March 2008 and have an exercise price of HK$ 2.88 per share and an exercise period ranging from 8 March 2008 to 7 March 2010. The price of the Company's shares at the date of grant was HK$ 2.88 per share.

At the date of approval of these financial statements, the Company had 75,502,000 share options outstanding under the Scheme, which represented approximately 9% of the Company's shares in issue as at that date.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44 of the financial statements.

The Group's capital reserve arose mainly from the capitalisation of directors' loans in prior years.

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

32. RESERVES (CONTINUED)

(b) Company

	Share premium account HK$'000	Contributed surplus* HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	318,524	373,108	21,042	3,967	716,641
Issue of shares	624	–	–	–	624
Profit for the year	–	–	–	39,046	39,046
Equity-settled share option expenses	–	–	16,896	–	16,896
Under-provision of final 2004 dividend	–	–	–	(14)	(14)
Proposed final 2005 dividend	–	–	–	(24,991)	(24,991)
At 31 December 2005	319,148	373,108	37,938	18,008	748,202
Issue of shares	21,422	–	(5,506)	–	15,916
Profit for the year	–	–	–	41,736	41,736
Equity-settled share option expenses	–	–	14,530	–	14,530
Under-provision of final 2005 dividend	–	–	–	(68)	(68)
Proposed final 2006 dividend	–	–	–	(37,818)	(37,818)
At 31 December 2006	**340,570**	**373,108**	**46,962**	**21,858**	**782,498**

* The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus in certain circumstances.

33. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Guarantees given to banks in respect of performance bonds	2,109	–	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	189,693	120,930
	2,109	–	189,693	120,930

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$46,936,000 (2005: HK$68,720,000). The carrying amount of the financial guarantee contract recognised in the Company's balance sheet in accordance with the HKAS 39 and HKFRS 4 Amendments was HK$1,187,000 (2005: HK$2,053,000). The financial guarantee contract was eliminated on consolidation.

34. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Within one year	12,476	11,353	–	–
In the second to fifth years, inclusive	5,773	3,156	–	–
	18,249	14,509	–	–

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group and the Company had the following capital commitments for the procurement of production facilities at the balance sheet date:

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Contracted, but not provided for:				
Land and buildings	**–**	12,860	**–**	–
Plant and machinery	**1,931**	30,939	**–**	–

36. RELATED PARTY TRANSACTIONS

(a) The Group had no significant related party transactions during the year and has no significant outstanding balances with related parties as at the year end.

(b) Compensation of key management personnel of the Group:

	Group	
	2006 HK$'000	2005 HK$'000
Short term employee benefits	**14,486**	15,158
Post-employment benefits	**195**	180
Share-based payments	**1,858**	1,402
Total compensation paid to key management personnel	**16,539**	16,740

Further details of directors' emoluments are included in note 8 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Cash flow interest rate risk

The interest rate and terms of repayment of interest-bearing loans are disclosed in note 27. The Group does not have any significant exposure to the risk of changes in market interest rates as the Group does not have any long term receivables or long term debt obligations.

Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations are mainly denominated in RMB. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign currency risk is considered minimal. The rates of RMB against United States dollars and Hong Kong dollars have been relatively stable over the past few years.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group does not have any significant exposure to liquidity risk as the Group was in a net current asset position as at 31 December 2006.

38. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 April 2007.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified upon the adoption of the new and revised HKFRSs as appropriate, is set out below:

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**1,550,441**	1,170,515	1,092,761	806,232	578,366
Cost of sales	**(963,901)**	(696,189)	(529,382)	(404,673)	(294,164)
Gross profit	**586,540**	474,326	563,379	401,559	284,202
Other income	**11,799**	8,851	8,705	3,990	835
Research and development costs	**(76,267)**	(62,509)	(37,057)	(27,334)	(14,705)
Selling and distribution costs	**(100,215)**	(86,955)	(69,391)	(42,390)	(27,920)
Administrative expenses	**(251,199)**	(223,000)	(211,147)	(94,976)	(55,803)
Other expenses	**(6,954)**	(3,454)	(8,342)	(10,838)	(6,686)
Finance costs	**(15,918)**	(21,480)	(9,531)	(5,542)	(2,977)
PROFIT BEFORE TAX	**147,786**	85,779	236,616	224,469	176,946
Tax	**(16,561)**	(7,315)	(6,031)	(15,912)	(14,587)
PROFIT FOR THE YEAR	**131,225**	78,464	230,585	208,557	162,359
Attributable:					
Equity holders of the parent	**131,140**	82,089	237,478	214,495	162,359
Minority interests	**85**	(3,625)	(6,893)	(5,938)	–
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**2,416,552**	2,182,236	1,828,652	1,317,930	601,176
TOTAL LIABILITIES	**(1,009,693)**	(986,921)	(716,384)	(386,184)	(302,624)
MINORITY INTERESTS	**(7,742)**	(7,657)	(11,282)	(13,243)	–
	1,399,117	1,187,658	1,100,986	918,503	298,552

京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited

香港新界沙田安耀街3號匯達大廈15樓
15th Floor, Delta House, 3 On Yiu Street, Shatin, Hong Kong
電話 Tel : 852 2636 6861
傳真 Fax : 852 2637 0966
網址 Website : www.comba-telecom.com