# Contents

# CORPORATE INFORMATION


## REGISTERED OFFICE

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P.O. Box 2681
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Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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No. 8 Science Park West Avenue
Hong Kong Science Park
Tai Po
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
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## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
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Wanchai, Hong Kong

## PRINCIPAL BANKERS

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Hong Kong Branch
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Hong Kong


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Level 10, HSBC Main Building
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Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Centre
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Central
Hong Kong

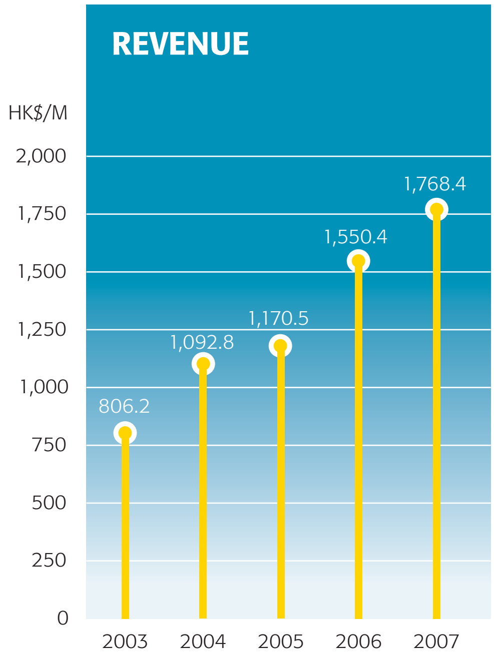
Industrial and Commercial Bank of China (Asia) Limited
33rd Floor, ICBC Tower
3 Garden Road, Central
Hong Kong

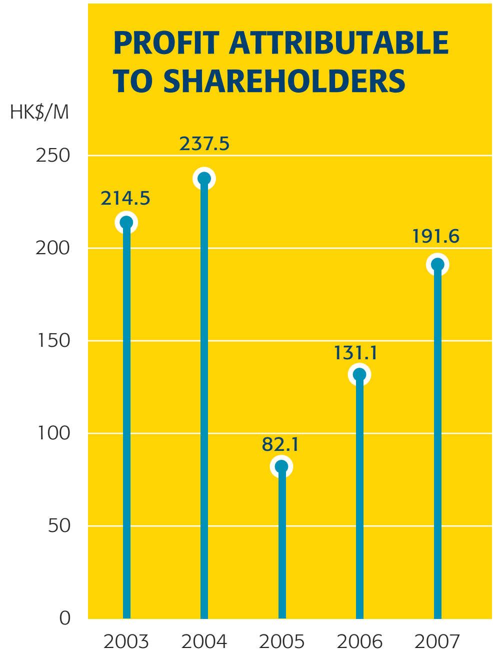
Bank of China
GETD District Branch
2 Qingnian Road
GETD District
Guangzhou, PRC

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

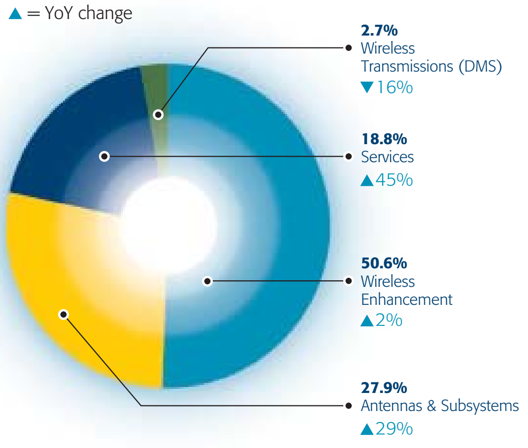
# FINANCIAL SUMMARY



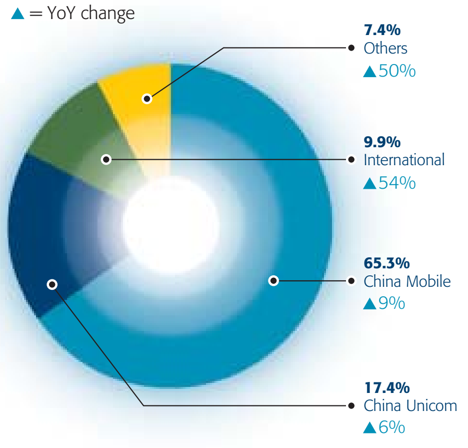

**Revenue breakdown by businesses**

▲ = YoY change




**Revenue breakdown by Customers**

▲ = YoY change



## FINANCIAL SUMMARY

| For the year ended 31 December | 2007 HK$'000 | 2006 HK$'000 | Change |
|---|---|---|---|
| Revenue | **1,768,418** | 1,550,441 | +14% |
| Gross profit | **681,257** | 586,540 | +16% |
| Profit attributable to shareholders | **191,619** | 131,140 | +46% |
| Basic EPS (HK cents) | **22.56** | 15.69 | +44% |
| Final dividend per share (HK cents) | **6.0** | 4.5 | +33% |

## KEY FINANCIAL FIGURES

| As at 31 December | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Total assets | **2,759,342** | 2,416,552 |
| Net assets | **1,698,256** | 1,399,117 |
| Net assets value per share (HK dollars) | **1.99** | 1.66 |
| Cash and bank balances | **380,362** | 494,846 |
| Current ratio | **2.2X** | 2.1X |
| A/R turnover days | **200** | 172 |
| A/P turnover days | **176** | 162 |
| Inventory turnover days | **230** | 225 |
| Return on average equity | **12.4%** | 10.1% |
| Gearing ratio | **3.2%** | 6.3% |

# CORPORATE MILESTONE 2007

At the beginning of the year, the Group launched GRRU, a strategic new product which is a network element (網元級) equipment that technologically surpasses the traditional repeater products of the Group and represents a major breakthrough in product lines achieved by the Group. This product was well-received by the market and was deployed in large-scale shortly after its introduction.


At the beginning of the year, the Group introduced another strategic new product, namely the single channel (單通道) TD-RRU. In June, the Group obtained purchase orders for this product from a renowned core equipment manufacturer and became its sole supplier of single channel TD-RRU.

June: China Mobile announced its mobile BTS antenna tenders result for 2007, in which the Group won tenders for all four of its antenna series (omni-directional, bi-polarized, polarized and VET antennas).

June: Comba was granted a Guangdong Province outstanding patent award for its proprietary "Multi-band Ceiling Mounted Antenna."

July: Delivery of over 9,000 BTS antennas for network rollout in Pakistan over a six month period

Engineers of Comba working on-site

Exterior of the hotel at AL-Dafna Tower

July: Supply of frequency shifting repeaters in Thailand market for network expansion

August: Comba undertook the indoor coverage project of a large-scale hotel at "AL-Dafna Tower" in Doha, the capital of Qatar. The work was completed in October as scheduled and the efficiency and quality of Comba's work were highly appreciated by the operator.

August: Comba won purchase orders for combiners from a well-known international core equipment manufacturer and became its first PRC supplier for this product, which marked an important breakthrough in terms of high-end proprietary products for Comba.


August: Comba obtained the ISO14001 certification issued by the BV certification organization in France.



Three 3G repeater industry-wide standards, of which Comba, as one of the major founders, participated in the establishment, were issued in May and September respectively.




October: Comba laid down a firm foundation for future business growth by relocating its Hong Kong headquarters to Science Park in Tai Po, Hong Kong.

October: Signed an agreement to supply over 150 GSM850 turnkey repeaters to a major operator in Brazil over a period of one year

November: Breakthrough order from customer in USA for High Power IDEN MCPAs and Dual Band (800&900MHz) PA Shelf.

December: The first phase of Comba's PLM (Product Life-cycle Management) project was formally implemented. This management system integrates computer and network technologies, management methods and corporate culture and will significantly enhance the product data and R&D processes management by R&D engineers and other relevant staff.


Launch Conference of PLM Project Implementation, Phase 1

December: The People's Government of Guangzhou City granted the "Headquarters Economy Award (總部經濟獎)" to Comba.

# CHAIRMAN'S STATEMENT


2007 was a year in which the Group achieved unprecedented success. Under the huge demand in the PRC and abroad for mobile communications equipment, together with our initiatives to optimize product mix, enlarge customer base, increase market penetration, improve operating efficiency and achieve economies of scale, Comba has achieved satisfactory results.

**Fok Tung Ling**
Chairman and President

On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries ("Comba" or the "Group") for the year ended 31 December 2007 (the "Current Year").

2007 was a year in which the Group achieved unprecedented success. Under the huge demand in the PRC and abroad for mobile communications equipment, together with our initiatives to optimize product mix, enlarge customer base, increase market penetration, improve operating efficiency and achieve economies of scale, Comba has achieved satisfactory results. The Group's revenue for the Current Year was HK$1,768,418,000, representing an increase of 14.1% over the revenue for the year ended 31 December 2006, while the gross profit amounted to HK$681,257,000, representing a year-on-year increase of 16.1%. Profits attributable to the shareholders increased substantially by 46.1% to HK$191,619,000.

The board of directors of the Company (the "Board") was delighted with the satisfactory results achieved by Comba and, with a view to sharing with the shareholders such results, recommended to distribute a final dividend for the Current Year of HK6 cents per ordinary share (2006: HK4.5 cents per ordinary share).

Comba has commenced to streamline its business portfolio. In view of the market reception with respect to the Group's mobile communications services which now account for a higher proportion of the Group's total revenue, as well as the growing importance of such services in the industry, the Group has identified four major sources of revenue in the Current Year, including the three principal business units and the services operation, namely:

I. Wireless Enhancement
II. Antennas and Subsystems
III. Wireless Transmissions
IV. Services

# Chairman's Statement

In 2007, the antennas and subsystems operation of the Group delivered splendid results with increased revenue. More importantly, we have become one of the leading suppliers of base transceiver station ("BTS") antennas in the PRC and we have successfully developed the compact TD-SCDMA ("TD") BTS antennas. Benefited from the trend of dual 2G and 3G development in the global market, the wireless enhancement business yielded enormous return since the Group was one of the few enterprises in the international market that is capable of providing 2G and 3G integrated solutions, while at the same time being successfully qualified as an approved supplier for the central procurement programme for TD indoor coverage projects carried out by network operators in the PRC. Such strength further solidified our leading position in the global market.

During the year, we maintained closer cooperation with China Mobile Communications Corporation and its subsidiaries (the "China Mobile Group") with more wireless enhancement projects undertaken, more innovative products introduced and our participation in the TD trials conducted in the PRC. As a result, revenue from the China Mobile Group increased and our partnership was strengthened. In addition, China United Telecommunications Corporation and its subsidiaries (the "China Unicom Group") continued to utilize the Group's high-quality service platform and the revenue from the China Unicom Group was back on the growth track.

The Group was satisfied with the results of its strategy of expanding both domestically and globally. The enormous demand for 2G communication networks from developing countries and emerging markets, and the continuous development of 3G services in the developed countries, have become the drive for our international operations. In an attempt to explore the international market, the Group has established presence in major regions and extended its global network to every market where ample opportunities arise. In addition, with an objective to enlarge the customer base of Comba, the Group has unremittingly expanded its sales channels and enhanced cooperation with core equipment manufacturers.

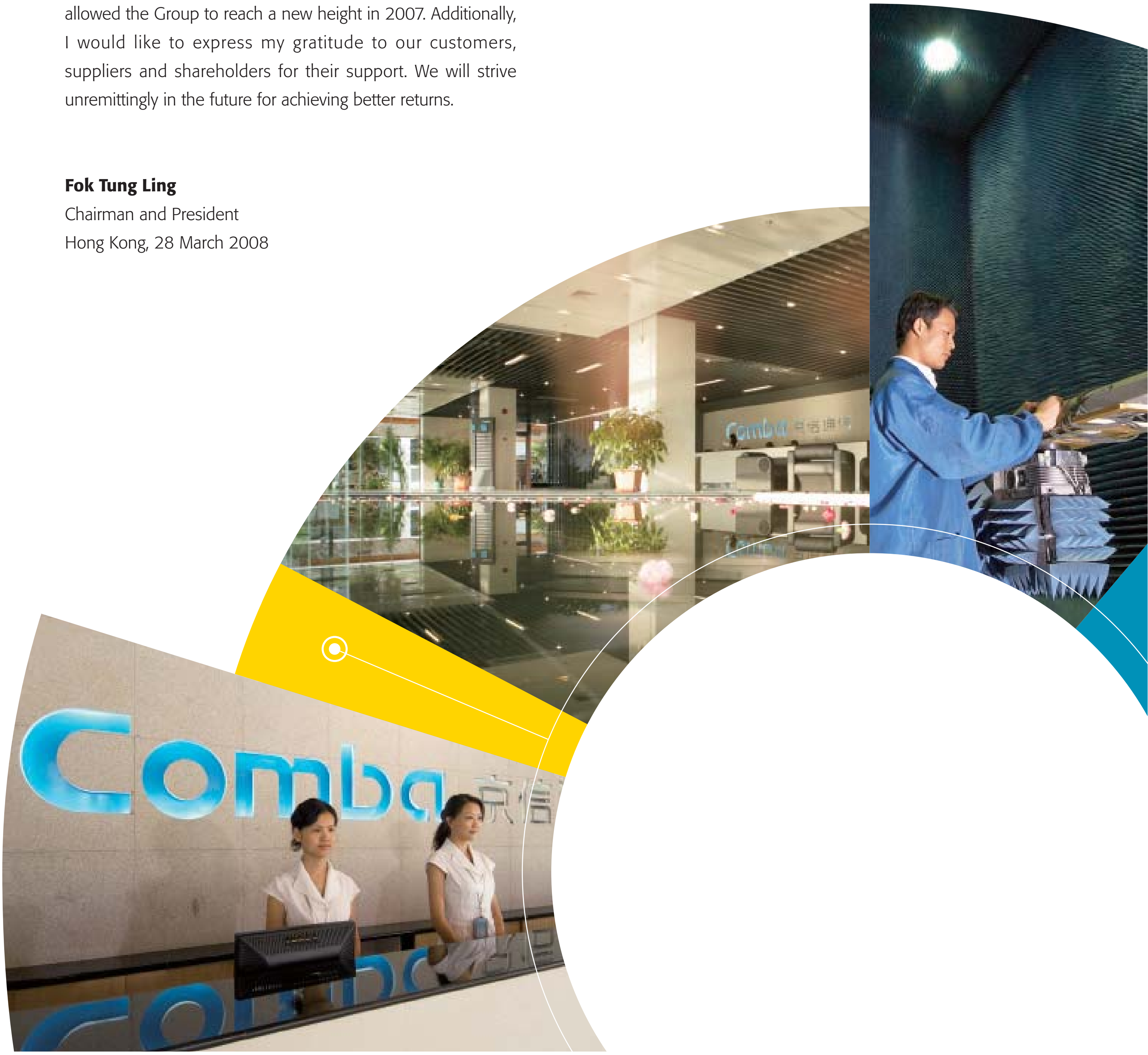
Being an internationally renowned wireless enhancement solutions supplier, we have always concentrated on enhancing our research and development capability. Leveraging the extensive research and development facilities in the PRC and abroad, Comba has continuously developed new products and services for its customers and applied for patents for our research results with a view to capturing the enormous opportunities in the PRC and the global markets. During the year, the contribution from the Group's new products and services to the results of the Group, in particular to our profit, was impressive.

We will adhere to our strategy of developing the PRC and international markets simultaneously and increase both the coverage and extent of our market penetration. As the reform and opening-up of the PRC mobile communications market continues, there will be more network operators and higher demand for the wireless enhancement services in the PRC and subsequently, higher investment will be made. Comba will definitely benefit from the opportunities arising from such an enormous market. Furthermore, it is believed that 3G operations in the PRC will commence shortly after the advancement in TD technology driven by the central government. We will certainly be capable of capitalizing the 3G development in the PRC as we are currently an important participant in the TD trials and will benefit from the implementation of TD networks in the PRC cities.

In 2007, Comba qualified as an approved supplier for various overseas mobile operators and core equipment manufacturers and our foundation for international expansion was reinforced. 2008 will be a year in which the Group further expands its international market. With our 3G wireless enhancement products, which are under increasing demand in the developed countries, we are confident of our future expansion to the international markets as well as the core equipment manufacturers market. With the expected continuous increase in the number of customers and revenue from abroad, the Group will further optimize its customer mix and enhance its position in the global market.

On behalf of the Board, I would like to thank our directors and staff for their dedicated commitment and contributions that allowed the Group to reach a new height in 2007. Additionally, I would like to express my gratitude to our customers, suppliers and shareholders for their support. We will strive unremittingly in the future for achieving better returns.

**Fok Tung Ling**
Chairman and President
Hong Kong, 28 March 2008



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW

### Revenue

The Group's revenue for the year ended 31 December 2007 (the "Current Year") was HK$1,768,418,000, representing an increase of approximately 14.1% over the revenue for the year ended 31 December 2006 (the "Prior Year"). During the Current Year, while the Group remained benefitting from continued increase in wireless enhancement capital expenditure, its revenue growth was somewhat affected by the downward average selling prices of its wireless enhancement products. Nevertheless, improving services revenue structure helped mitigate this negative impact. The Group's product diversification strategies started reaping results in the Current Year. The Group has become one of the leading suppliers of base transceiver station ("BTS") antennas in the PRC and this helped deliver satisfactory growth. As a result of active expansion, international market also delivered remarkable growth in revenue during the Current Year.

*By customers*

Revenue from international customers (including sales through core equipment manufacturers) increased remarkably by 54.4% and accounted for 9.9% of the Group's revenue in the Current Year. Revenue generated from the China Mobile Group still accounted for 65.3% of the Group's revenue in the

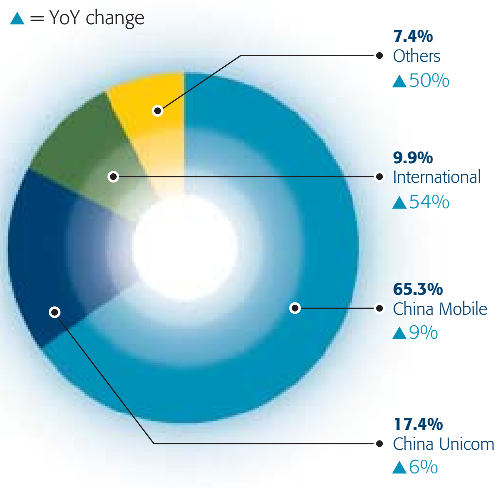

Current Year, an increase of 9.1%. Such growth is primarily due to growth in sales of BTS antennas, increase in wireless enhancement projects undertaken, the Group's participation in TD-SCDMA ("TD") trials, and the launch of innovative products and solutions. During the Current Year, revenue generated from the China Unicom Group accounted for 17.4% of the Group's revenue, an increased of 5.8%. Other revenue including sales to the fixed line operators and agents in the PRC accounted for 7.4% of the Group's revenue in the Current Year.

*By businesses*

Revenue generated from wireless enhancement business increased by 1.5% over the Prior Year and accounted for 50.6% of the Group's revenue in the Current Year. As a result of the increasing importance of services revenue in its revenue mix, the Group has decided to show the services revenue separately. Services revenue increased remarkably by 44.8% and accounted for 18.8% of the Group's revenue in the Current Year.

Revenue generated from antennas and subsystems business grew by 29.0% over the Prior Year and accounted for 27.9% of the Group's revenue in the Current Year. Such increase was mainly due to the substantial growth in sales of BTS antennas and camouflaged antennas in the Current Year.

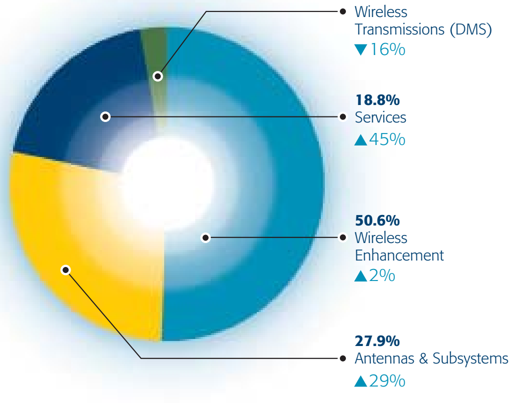
**Revenue breakdown by Customers**



# Management Discussion and Analysis

**Revenue breakdown by businesses**

▲ = YoY change




Revenue generated from the wireless transmissions business decreased by 15.9% over the Prior Year and accounted for 2.7% of the Group's revenue in the Current Year. Such decrease was mainly due to slower deployment of wireless transmission solutions from existing customers.

Although TD network is still at the trial stage in the PRC, the Group recorded total TD revenue of around HK$80,000,000 in the Current Year. Such revenue has been included in the relevant businesses mentioned above accordingly.

## Gross profit

In view of continued pressure on the average selling price and hence gross profit margin of its products and solutions for the maturing 2G mobile communications market, the Group has endeavoured to optimize its product mix and services structure, develop higher value-added products and innovative solutions, broaden its sales channels and expand into new markets, so as to alleviate such pressure. Coupled with improving logistics and cost control measures implemented throughout its supply chain, the Group has maintained a very healthy gross profit margin of 38.5% in the Current Year, compared to 37.8% in the Prior Year. Gross profit of the Group for the Current Year was HK$681,257,000, representing an increase of 16.1% 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 in order to enable it to meet current and future market demand. R&D expenses increased by 19.4% to HK$91,087,000 and accounted for 5.2% of revenue in the Current Year compared to 4.9% in the Prior Year. Such increase was mainly due to the Group's improved R&D efforts and capabilities following an expansion in R&D workforce. With its continuous investment in R&D, the Group achieved significant accomplishment in intellectual property rights, having applied for over 280 patents as at the end of the Current Year.

## Selling and distribution costs

Selling and distribution costs were HK$134,953,000 in the Current Year, representing an increase of 25.6% over the

Prior Year. Such increase was mainly due to the increase in payroll costs of the sales and marketing workforce. Despite a decreasing trend of the average selling price of some of the Group's products, the Group achieved steady revenue growth, partly as a result of a broader product portfolio supported by an established sales platform. Selling and distribution costs accounted for 7.6% of the Group's revenue in the Current Year, compared to 6.9% in the Prior Year.

### Administrative expenses

Administrative expenses were HK$271,712,000 in the Current Year, representing an increase of 11.4% over the Prior Year, and accounted for 15.4% of the Group's revenue in the Current Year, compared to 15.7% in the Prior Year. This improvement was primarily a result of the Group's strengthened budgetary control. 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$7,973,000 in the Current Year, representing a decrease of 49.9% over the Prior Year. In view of rising interest rates in the PRC, the Group was successful in improving its cash management, thereby reducing the bank borrowing level for working capital purposes during the Current Year.

### Tax

Effective tax rate was 3.6% in the Current Year, compared to 11.2% in the Prior Year. The substantial decrease in effective tax rate was mainly attributable to a deferred tax credit of HK$30,996,000. Such deferred tax credit was calculated based on unrealized profit arising on consolidation at the relevant tax rate of the relevant subsidiary. Should there be a decrease in the tax rate or the amount of unrealized profit arising on consolidation in the future, such deferred tax credit will be charged to the income statement accordingly.

### Net profit

Profit attributable to shareholders ("Net Profit") for the Current Year was HK$191,619,000, representing an increase of 46.1% over the Prior Year. Net profit margin was 10.8% in the Current Year compared to 8.5% in the Prior Year. Such increase was a result of steady revenue growth, healthy gross profit margin, efficient utilization of the Group's resources and better economies of scale described above.

## PROSPECT

The Directors expect that 2008 is a year full of opportunities and challenges. The long awaited restructuring in the telecommunications industry in the PRC is likely to be finalised in the foreseeable future. With an increase in the number of mobile operators in the PRC, the Directors believe that their total capex will increase in 2008. The Directors are particularly encouraged by the budgeted capex growth recently announced by the incumbent mobile operators in the PRC even ahead of an industry restructuring. TD network construction is also expected to proceed steadily. Extension of the trial networks or issuance of 3G licences in

# Management Discussion and Analysis

the PRC certainly offers tremendous business opportunities to the Group. Internationally, the Directors are pleased with the progress and development the Group has achieved so far and are therefore confident in the future demand and development of the Group's global business with more optimism. After successful market development and as a result of increasing order flow, the Group expects to deliver faster growth in its international business from the three product lines described below.

## Wireless Enhancement

The Directors remain cautiously optimistic about the demand for 2G products and solutions in the PRC market, and have a more optimistic outlook for 2G products in the international market, especially in various developing countries and emerging markets. In particular, given the strong subscriber growth achieved by the mobile operators in the PRC, coupled with their rural expansion strategy, the wireless enhancement market in the PRC looks promising as certain operators recently announced a budgeted capex growth of over 20% for the year of 2008. Despite the decreasing trend in average selling price of its products, the Group expects to continue to deliver revenue growth on the back of increasing volume demand for the Group's products and solutions. In order to drive revenue growth further, the Group has been broadening its product portfolio and launching innovative products and solutions steadily.

The Directors believe that 2G and 3G mobile networks will co-exist for a long time. As a newer mobile standard, 3G services and applications will increasingly be adopted as the demand of subscribers increases. This will broaden the application areas of the Group's wireless enhancement products and solutions. The Group has developed a series of different 3G products and wireless enhancement solutions, some of which have successfully been deployed.

During the Current Year, the Group has successfully qualified as an approved vendor of wireless enhancement equipment in the central procurement programme for TD carried out in the PRC. The Group has actively participated in TD indoor upgrade projects in certain cities in the PRC and this has contributed to the Group's revenue in the Current Year. Given the strong business relationship with the mobile operators in the PRC, the Group is poised to benefit from their TD wireless enhancement investment in 2008 and beyond, in the event of a nationwide rollout. Moreover, the Group has developed TD Remote Radio Units ("RRUs") for a leading core equipment manufacturer in the PRC and this has contributed to the Group's revenue in the Current Year. Typically deployed in

combination with base transceiver stations, the Group's RRUs enable mobile operators to roll out TD networks effectively and rapidly while maximising capacity and coverage.

The international market continues to be one of the focal growth points for the Group with the increasing investment in wireless infrastructure around the world. Capital expenditure in 2G network rollouts and enhancements remains strong in both developing and developed regions. In particular, developing countries continue to have new 2G network buildouts to cover its city areas and increasingly to extend coverage to rural areas. The Group has witnessed 2G investments by mobile operators within the mature markets to focus primarily on enhancing their network coverage to include in-building solutions as well as wireless solutions in the rural areas.

Internationally, 3G network deployment continues to be strong and the Group has a comprehensive range of WCDMA and CDMA2000 wireless enhancement solutions that is capitalizing on this trend. In particular, deployment activities are centered about demand for 3G network infill requirements for both indoor and outdoor coverage. As well as developing 3G products, the Group is also offering solutions for the growing demand of multi band/operators solutions to enable its customers to integrate 2G and 3G services. To date, such solutions have been well received by the market and have been deployed by various operators around the world.

### 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, tower mounted amplifiers, combiners, etc. and a full range of tower top solutions to address the PRC market as well as the global market.

The Group's production capacity for BTS antennas has exceeded 200,000 pieces per annum in order to cope with the anticipated demand. The Group will continue to increase its production capacity as and when needed. After successfully qualifying as an approved vendor in central procurement programmes for BTS antennas conducted by mobile operators, the Group is now a leading supplier of BTS antennas to each of the China Mobile Group and the China Unicom Group. As a result, this business unit has delivered faster growth than the Group's core business of wireless enhancement and this trend is expected to continue.

In addition to using its own sales network, the Group is also selling its BTS antennas to a leading global 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.

As far as new mobile standards are concerned, the Group has developed TD BTS antennas which have already contributed to the Group's revenue in 2007. The Group is also the first supplier who has successfully developed compact TD BTS antennas, which were deployed in the trial network in September 2007.

On a global level, the demand from RF conditioning solutions from core equipment manufacturers and mobile operators has increased substantially. One of the drivers for this demand includes the rollout of new 3G networks and upgrades. Corresponding to these network buildouts, the Group has experienced an increasing requirement for its multi-system solutions that combines both 2G and 3G networks into a single footprint.

### Wireless Transmissions — Digital Microwave Systems ("DMS")

In addition to selling DMS to mobile operators in the global market, during the Current Year, the Group successfully qualified as an approved vendor of outdoor units ("ODUs"), which is an essential part of DMS, with a leading global core equipment manufacturer. This customer has started placing volume orders for the Group's ODUs in the first half of 2008. The order size from this customer is expected to grow substantially in 2008 and it will therefore account for a meaningful portion of the Group's wireless transmissions business.

# Management Discussion and Analysis

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. The Group therefore endeavours to expand its geographical coverage in the global market for its DMS products in order to achieve growth. In addition, the forthcoming launch of next generation network in the PRC is another growth opportunity for DMS as there will be a huge demand in BTS backhaul services.

### Services

Provision of services has become more and more important in the mobile industry. With a nationwide platform in the PRC, the Group is well positioned to provide it customers with top quality services in site survey, solutions design, project management and after-sale maintenance. The Group is also able to leverage its experience in the PRC to expand into the global market, especially in the developing world. Therefore, the Directors expect this business to deliver continuous growth in the next few years.

### 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 to support the sales platforms in the global market in all aspects. The new structure has been functioning well and it helped deliver a set of good results in the Current Year. The Directors are confident that the well coordinated structure 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.

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 Group will continue to develop innovative products, improve its operations efficiency, and expand its market coverage in order to sustain gross profit margin.

In addition, as materials cost is the largest cost component among all, the Group has recently optimized the organization and the logistics in its supply chain management. This aims to improve the efficiency and cost savings capability of the supply chain, with a view to satisfying the need for the Group's market development in the next few years.

## CONCLUSION

The global 2G market is expected to continue to grow in the next few years, especially in the emerging markets. As a result, cost effective products and solutions are expected to be in great demand. As for 3G, the Group has already developed products for all three 3G standards, namely, TD, WCDMA and CDMA2000. Different 3G products and solutions have been deployed in various countries around the world. In the PRC, the Directors remain cautiously optimistic about the revenue from the TD rollout in the next couple of years, given the various types of TD products developed by the Group and its involvement in the trial networks. The State government is determined to allow more operators to provide mobile services. This may drive the demand for wireless enhancement solutions as mobile subscribers may demand better services from an increasing number of mobile operators in the PRC.

The Group believes that the key for its long term development and continuous growth is to enhance and maintain its core technical competency and to broaden its product portfolio. The global 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. The Group will continue to enhance its technical innovation and product development, and to launch new products which can meet market needs, in order to achieve the Group's objective of diversified market development, so as to strengthen the Group's market leading position.

Modern communications technologies are evolving rapidly. The Group needs to follow diligently the industry trend and new technology development, and analyse market risks and threats to maintain its leadership position. To cope with the ever changing market environment, the Group will continue to invest in technology research and new product development, thereby launching competitive products and solutions which meet market needs. 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 2007, the Group had net current assets of HK$1,296,311,000. Current assets comprised inventories of HK$754,766,000, trade receivables of HK$1,099,643,000, notes receivable of HK$29,385,000, prepayments, deposits and other receivables of HK$81,402,000, restricted bank deposits of HK$4,250,000 and cash and cash equivalents of HK$374,496,000. Current liabilities comprised trade and bills payables of HK$548,469,000, other payables and accruals of HK$341,696,000, interest-bearing bank loans of HK$88,794,000, tax payable of HK$28,606,000 and provision for product warranties of HK$40,066,000.

The average receivable turnover for the Current Year was 200 days compared to 172 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 176 days compared to 162 days for the Prior Year. The average inventory turnover for the Current Year was 230 days compared to 225 days for the Prior Year.

As at 31 December 2007, 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$. As the Group's revenue is substantially denominated in RMB, the Board currently considers that the appreciation of RMB should have a mildly favourable impact on the Group's business.

The Group's gearing ratio, calculated as total interest-bearing debts (including bank loans and advances) over total assets, was 3.2% as at 31 December 2007 (31 December 2006: 6.3%).

## CHARGE ON ASSETS

As at 31 December 2007, there was no charge on the Group's assets (31 December 2006: Nil).

## CONTINGENT LIABILITIES

As at 31 December 2007, the Group had contingent liabilities of HK$5,866,000 (31 December 2006: HK$2,109,000).

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had approximately 4,400 staff. The total staff costs for the Current Year were HK$362,593,000. 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 51, chairman of the Board and 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 a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from the Beijing Institute of Post and Telecommunications (currently known as the Beijing University of Post and Telecommunications (北京郵電大學)), majoring in microwave communications. Prior to 1991, Mr. Fok worked as a marketing 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) which was engaged 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 20 years of experience in wireless communications. Mr. Fok is the sole director of Prime Choice Investments Limited, which is a substantial shareholder of the Company.

Mr. Zhang Yue Jun

Mr. Chan Kai Leung, Clement

Mr. Wu Jiang Cheng

Mr. Zhang Yue Jun (張躍軍), aged 49, vice chairman & executive vice president, R&D. Mr. Zhang is responsible for the overall research and development of new technology and products, production control and the overall quality control of products. He graduated from South China Institute of Technology (currently known as South China University of Technology (華南理工大學)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997 he was the deputy chief engineer of a joint venture company in Shenzhen, mainly responsible for wireless telecommunications projects. Mr. Zhang has over 25 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 44, executive director and financial controller. Mr. Chan is also the qualified accountant and company secretary of the Company. Mr. Chan is mainly responsible for the overall financial management, accounting, investor relations and company secretarial duties of the Group. He is a member of the Institute of Chartered Accountants in England and Wales and 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 19 years of experience in auditing, investment banking and accounting and he joined the Group in 2001.

Mr. Wu Jiang Cheng (伍江成), aged 48, executive director and senior vice president, PRC marketing & sales. He is responsible for the formulation and implementation of the Group's overall sales and marketing strategies in the PRC and is also involved in the supervision of such strategies. 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 from School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in 2006. Mr. Wu has over 10 years of experience as a lecturer in engineering and spent his last two years of teaching at Guangzhou University. Mr. Wu also has over 15 years of experience in communications and marketing and he joined the Group in 1997.

# Directors and Senior Management

Mr. Yan Ji Ci　　Mr. Zheng Guo Bao　　Mr. Yeung Pui Sang, Simon

Mr. Yan Ji Ci (嚴紀慈), aged 53, executive director and senior vice president, production operations. Mr. Yan is responsible for the operations of the supply chain of the Group and the production and procurement management of the Group's production facilities in Guangzhou, the PRC. Mr. Yan graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 30 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 42, executive director and 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 the University of Science and Technology of China and obtained bachelor's and master's degrees in electrical engineering. From 2000 to 2002, Mr. Zheng served as chief engineer in Filtronic Sigtek, Inc., Maryland USA. Before joining the Group, 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 21 years of experience in RF/micro wave/millimeter-wave technology and wireless communications and specialized in the field of research and development. He joined the Group in 2003.

Mr. Yeung Pui Sang, Simon (楊沛燊), aged 35, 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 which was successfully acquired by ADC Telecom. Mr. Yeung also held various positions at LGC including the general manager of a business unit, director of technical marketing, general manager of Asia Pacific Region, and principal engineer. Mr. Yeung 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 12 years of experience in the telecom industry. He joined the Group in 2004.

### Independent Non-executive Directors

Mr. Yao Yan (姚彥), aged 70, 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 49, independent non-executive director. He has over 26 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. 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 68, independent non-executive director. He is the vice chairman 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 and responsible for the organization works of policy formulation, 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 works 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 44, 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 (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 22 years of experience in technology research of wireless communications. He joined the Group in 1998.

Mr. Zhang Jin Yu, Charles (張金玉), aged 44, 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 17 years of experience in accounting and financial management and joined the Group in 2004.

Mr. Fredrik Dyfverman, aged 37, director of the Group's international branch in Sweden. Mr. Fredrik Dyfverman is responsible for developing the Group's brand as well as establishing sales platform outside China market. Prior to joining the Group, Mr. Fredrik Dyfverman was the vice president of system sales division 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. Fredrik Dyfverman has 10 years of experience in the wireless industry. He joined the Group in 2004.

Mr. Ong Sing Jye (王新杰), aged 39, general manager of the Group's international branch in Singapore. He is also the vice president of the network solutions division 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 honours from the University of Birmingham, specializing in Electronics and Communications Engineering. He has more than 14 years of experience in the telecommunications industry and joined the Group in 2002.

Mr. Zhang Shan Yu (張山宇), aged 50, 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 (大連理工大學)) and obtained a bachelor's degree in wireless technology. Mr. Zhang has over 25 years of experience in engineering, marketing and management. He joined the Group in 1997.

Mr. Feng Yong (馮勇), aged 36, deputy general manager of the Group's sales and marketing department and director of the Group's Eastern branch. Mr. Feng is responsible for the business operation in relation to the Group's major customers and the Group's business development in Shanghai city, and 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 EMBA in 2005. Mr. Feng has over 10 years of experience in marketing and management. He joined the Group in 2000.

Mr. Chen Jin Jian (陳錦堅), aged 49, 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 28 years of experience in quality control and procurement. He joined the Group in 1997.

Mr. Shen Wen Bo (沈文波), aged 44, deputy general manager of the Group's sales and marketing department and director of the Group's Northwestern branch. Mr. Shen is responsible for the senior level business operation in relation to the Group's major customers and the Group's business development in Shaanxi, Qinghai and Gansu provinces; he is also responsible for the business expansion in 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 22 years of experience in marketing and management. He joined the Group in 1999.

Mr. Qiao Hong Feng (喬宏楓), aged 46, 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 EMBA in 2005. Mr. Qiao has over 17 years of experience in marketing and management. He joined the Group in 1999.

Mr. Meng Cheng Zhi (蒙承志), aged 39, general manager of the Group's Guangdong branch. Mr. Meng is responsible for the Group's business development in Guangdong. He graduated from the Chengdu University of Electronic Science and Technology (currently known as University of Electronic Science and Technology (電子科技大學)). Mr. Meng has over 15 years of experience in engineering and management. He joined the Group in 1997.

Ms. Li Yu Wen (李宇雯), aged 37, 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 from School of Economics and Management of Tsinghua University in 2006. Ms. Li has over 15 years of experience in the market of communications, operation and project management. Ms. Li served in the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

# Directors and Senior Management

Mr. Liu Yi Bo (劉義波), aged 39, 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 16 years of experience in engineering and project management. He joined the Group in 1997.

Mr. Su Hua Hong (蘇華鴻), aged 67, senior engineer of professor level, wireless business technical director of the Group. Mr. Su is responsible for design solution of wireless enhancement product for the Group. He graduated from the Beijing Institute of Post and Telecommunications (currently known as Beijing University of Post and Telecommunications) and obtained a master's degree. Mr. Su 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 special state allowance. Mr. Su has over 42 years of experience in telecommunications. He joined the Group in 2001.

Mr. Sun Ru Shi (孫孺石), aged 68, senior engineer, technical director of the Group's Eastern branch. Mr. Sun is responsible for the design of the special project solution 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 special state allowance. Mr. Sun has over 42 years of experience in communications. He joined the Group in 2003.

Mr. Bu Bin Long (卜斌龍), aged 45, general manager of the Group's antennas and subsystems business unit. Mr. Bu is responsible for the Group's research & development of antenna products of subsystems and operations management of mobile communications base stations. Mr. Bu graduated in 1985 from Northwest Institute of Telecommunications Engineering (currently known as Xidian University) and obtained a master's degree in electronic magnetic field and microwave technology. Mr. Bu has over 22 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Mr. Zhu Qin (朱勤), aged 50, microwave systems technical director of the Group. Mr. Zhu is responsible for the Group's research & development and technical management in digital microwave products. He graduated from South China Institute of Technology (currently known as South China University of Technology) and obtained a bachelor's degree in Science in radio technology. Mr. Zhu has over 25 years of experience in development and technical management of microwave communication products. He joined the Group in 2004.

Mr. Wang Wei (王偉), aged 44, 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. He 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 22 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 46, is the technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the Group's product development works concerning microwave RF passive accessories. Mr. Di graduated from Xidian University, 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 and research of microwave RF passive accessories for many years. Mr. Di is also very experienced in product development of microwave RF passive accessories. He joined the Group in 2004.

Mr. Feng Bo (馮波), aged 53, 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 27 years of experience in research, marketing and management of communications products. He joined the Group in 2002.

Mr. Shen Wen (沈文), aged 42, 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 and obtained 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 in 2006. Mr. Shen has over 17 years of experience in communications engineering, marketing and management. He joined the Group in 1999.

Mr. Pan Tian (潘天), aged 32, 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 8 years of experience in engineering, marketing and management. He joined the Group in 2000.

Mr. Zuo Lin Shi (左璘石), aged 46, regional director of Beijing of the Group and is responsible for the Group's business development in Beijing. He is also responsible for the business development of 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 25 years of experience in engineering, marketing and management. He joined the Group in 2003.

Mr. Huang Shao Ping (黃少平), aged 51, head of Administration Office of the Group. Mr. Huang is responsible for duties concerning 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 26 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 2007 (the "Financial Year"), 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.

## 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 7 meetings during the Financial Year with attendance record as follows:

| **Attendance at board meeting** | **Number of meetings attended** |
|---|---|
| *Executive Directors:* | |
| Mr. Fok Tung Ling (Chairman & President) | 7 |
| Mr. Zhang Yue Jun | 7 |
| Mr. Chan Kai Leung, Clement | 7 |
| Mr. Wu Jiang Cheng | 7 |
| Mr. Yan Ji Ci | 7 |
| Mr. Zheng Guo Bao | 5 |
| Mr. Yeung Pui Sang, Simon | 6 |
| *Independent Non-executive Directors:* | |
| Mr. Yao Yan | 7 |
| Mr. Lau Siu Ki, Kevin | 5 |
| Mr. Liu Cai | 7 |

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 primary 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 a meeting held during the Financial Year and 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 Financial Year 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 Group.

The Audit Committee held 2 meetings during the Financial Year with attendance record as follows:

| Attendance at audit committee meeting | Number of meetings attended |
|---|---|
| Mr. Yao Yan | 2 |
| Mr. Lau Siu Ki, Kevin | 1 |
| 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. 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, as at the end of the Financial Year, ten securities companies provided research coverage on the Company.

## 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 Group 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.

Following the recommendations from the independent accounting firm which was engaged by the Group to assist the Internal Audit Department to carry out the internal control review of the Group's major operations, the Internal Audit Department carried out audit in areas identified as of high or medium significance during the Financial Year. This included sales and receivables, inventories and costing, and purchases and payables. Recommendations were made to the relevant business functions and improvements have been made.

The Audit Committee reviewed the report submitted by Internal Audit Department and is satisfied that the internal control systems within the Group are effective.

## 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 Financial Year and the corresponding audit fees estimation. During the Financial Year, the fees paid to the auditors for audit services and non-audit services (mainly tax computation work and review of interim financial statements) amounted to HK$2,048,000 and HK$468,000, respectively.

# 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 2007.

## 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 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 99.

The directors recommend the payment of a final dividend of HK6 cents per ordinary share in respect of the year (2006: HK4.5 cents per ordinary share) to shareholders on the register of members on 23 May 2008. 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 2007 (2006: 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 100. 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 Company and 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 28 and 29 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 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$442,672,000 of which HK$51,233,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$377,508,000, 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 88% of the total sales for the year and sales to the largest customer included therein accounted for approximately 65% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 16% 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 ("Mr. Fok") (Chairman and President)
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. Fok, Mr. Wu, and Mr. Yeung 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 DIRECTORS 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, 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:*

| Name of director | Notes | Number of ordinary shares held, capacity and nature of interest: Directly beneficially owned | Through controlled corporation | Total | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|
| Mr. Fok | (a) | 10,716,000 | 358,442,000 | 369,158,000 | 43.23 |
| Mr. Zhang | (b) | – | 97,000,000 | 97,000,000 | 11.36 |
| 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 |
| | | 16,832,000 | 455,442,000 | 472,274,000 | 55.31 |

Notes:

(a) 357,644,000 shares and 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 358,442,000 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 97,000,000 shares owned by Wise Logic.

(c) Each of Mr. Wu and Mr. Yan has share options in respect of 1,000,000 ordinary shares. Mr. Chan has share options in respect of 2,000,000 ordinary shares. Mr. Yeung has share options in respect of 4,000,000 ordinary shares. Details of these share options are disclosed in note 29 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 2007, 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.

# Report of the Directors

## 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 29 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 29 to the financial statements.

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

At 31 December 2007, 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 | 357,644,000 | 41.88 |
| Mdm. Chen Jing Na ("Mdm. Chen") | (a) | Interest of spouse | 369,158,000 | 43.23 |
| Wise Logic | | Beneficial owner | 97,000,000 | 11.36 |
| Mdm. Cai Hui Ni ("Mdm. Cai") | (b) | Interest of spouse | 97,000,000 | 11.36 |

Notes:

(a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 369,158,000 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 97,000,000 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) 357,644,000 shares between Prime Choice and Mdm. Chen; and

(ii) 97,000,000 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2007, 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 TRANSACTIONS

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 18 July 2007, the Lender, Cascade Technology Limited and the Borrower, WaveLab Holdings Limited, entered into a loan agreement ("the Agreement") pursuant to which the Lender agreed to lend a principal amount of US$2,500,000 (equivalent to approximately HK$19,500,000) ("the Loan") to the Borrower subject to the terms and conditions of the Agreement as described below.

The Loan will become available for drawing by the Borrower at any time during the period from the date of the Agreement and ending on 31 December 2008. If the Loan is not drawn by the Borrower before the last day of the above availability period, the Loan will cease to be available for drawing and the Agreement shall forthwith terminate. The Borrower has been paying interest on the Loan at a rate of LIBOR at the date of drawing plus 1 per cent per annum. The interest period of the Loan is either 6 months or 12 months, and thereafter, the Lender may, at any time upon giving notice in writing, demand repayment of the Loan in full or in part 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 is applied by the Borrower as working capital of the Borrower and its subsidiaries.

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 Agreement) has 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.

# Report of the Directors

## Continuing connected transactions

On 1 March 2004, the Group through Comba Telecom Systems (Guangzhou) Limited ("Comba Systems Guangzhou"), a wholly-owned subsidiary of the Company, entered into an agreement (the "2004 Product Sales Agreement") with WaveLab Telecom Equipment (Guangzhou) Limited ("WaveLab Guangzhou") pursuant to which WaveLab Guangzhou agreed (a) to sell digital microwave outdoor units and other products used in connection with microwave transmission (the "Products") to Comba Systems Guangzhou and (b) to grant Comba Systems Guangzhou the sole and exclusive right to sell the Products in the Mainland China, Hong Kong and Macau ("the Territory"), for a term of three years expired 28 February 2007. Waiver for transactions pursuant to the 2004 Product Sales Agreement was granted by the Stock Exchange and was valid until 31 December 2006 (the "2004 Waiver"). On 21 June 2007, the Group entered into a new agreement (the "2007 Product Sales Agreement") with WaveLab Guangzhou relating to (a) the sale of the Products by WaveLab Guangzhou to the Group and (b) WaveLab Guangzhou's continued grant to the Group the sole and exclusive right to sell the Products in the Territory from 1 March 2007 to 31 December 2009. The 2007 Product Sales Agreement replaced the 2004 Product Sales Agreement. The price of the Products under the 2007 Product Sales Agreement is to be agreed between WaveLab Guangzhou and the Group in writing from time to time. The Group intended to integrate most, if not all, of the Products acquired with the products of the Group.

By virtue of WaveLab Guangzhou being a wholly-owned subsidiary of WaveLab Holdings, a 60% subsidiary of the Group, and that Mr. Zheng, an executive Director of the Company who is a 32% owner of WaveLab Holdings, both the transactions which the Group continued to carry out pursuant to the 2004 Product Sales Agreement upon its expiry on 31 December 2006 and the transactions pursuant to the 2007 Product Sales Agreement (the "Transactions") constitute non-exempt continuing connected transactions falling under Rule 14A.35 of the Listing Rules.

On 31 July 2007, the Company sought the approval of its independent shareholders to (a) ratify the transactions carried out by the Group pursuant to the 2004 Product Sales Agreement since the expiry of the 2004 Waiver on 31 December 2006 and (b) to approve the continuing connected transactions to be carried out by the Group under the 2007 Product Sales Agreement subject to the cap amounts as set out in the announcement issued by the Company on 21 June 2007.

For the ten months ended 31 December 2007, the total actual expenditure by the Group in respect of the Transactions amounted to approximately HK$18,252,000 (For the year ended 31 December 2006: HK$29,680,000).

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 2007 Product Sales Agreement, on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole; and

(ii) the total annual expenditure by the Group in respect of the Transactions in the financial year ended 31 December 2007 did not exceed HK$52.5 million, being the cap amount set for the ten months ended 31 December 2007 (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 entered into in accordance with the 2007 Product Sales Agreement; and

(ii) the aggregate value of the Transactions in respect of in the ten months ended 31 December 2007 did not exceed the Cap Amount.

## 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
28 March 2008

# INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
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**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 39 to 99, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 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.

**Ernst & Young**
*Certified Public Accountants*

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
28 March 2008

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007



| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **1,768,418** | 1,550,441 |
| Cost of sales | | **(1,087,161)** | (963,901) |
| Gross profit | | **681,257** | 586,540 |
| Other income and gain | 5 | **23,766** | 11,799 |
| Research and development costs | | **(91,087)** | (76,267) |
| Selling and distribution costs | | **(134,953)** | (107,472) |
| Administrative expenses | | **(271,712)** | (243,942) |
| Other expenses | | **(1,534)** | (6,954) |
| Finance costs | 7 | **(7,973)** | (15,918) |
| **PROFIT BEFORE TAX** | 6 | **197,764** | 147,786 |
| Tax | 9 | **(7,193)** | (16,561) |
| **PROFIT FOR THE YEAR** | | **190,571** | 131,225 |
| Attributable to: | | | |
| Equity holders of the parent | | **191,619** | 131,140 |
| Minority interests | | **(1,048)** | 85 |
| | | **190,571** | 131,225 |
| **DIVIDEND** | 11 | | |
| Proposed final | | **51,233** | 37,818 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)** | 12 | | |
| Basic | | **22.56** | 15.69 |
| Diluted | | **22.34** | 15.55 |

# CONSOLIDATED BALANCE SHEET

31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **293,700** | 257,724 |
| Prepaid land lease payments | 14 | **13,853** | 13,220 |
| Goodwill | 15 | **30,110** | 21,916 |
| Deferred tax assets | 16 | **68,997** | 34,232 |
| Other intangible assets | 17 | **7,124** | 5,250 |
| Restricted bank deposits | 23 | **1,616** | 1,629 |
| Total non-current assets | | **415,400** | 333,971 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **754,766** | 617,789 |
| Trade receivables | 20 | **1,099,643** | 840,426 |
| Notes receivable | 21 | **29,385** | 33,754 |
| Prepayments, deposits and other receivables | 22 | **81,402** | 97,395 |
| Restricted bank deposits | 23 | **4,250** | 480 |
| Cash and cash equivalents | 23 | **374,496** | 492,737 |
| Total current assets | | **2,343,942** | 2,082,581 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 24 | **548,469** | 500,776 |
| Other payables and accruals | 25 | **341,696** | 307,756 |
| Interest-bearing bank loans | 26 | **88,794** | 152,908 |
| Tax payable | | **28,606** | 22,214 |
| Provisions for product warranties | 27 | **40,066** | 26,039 |
| Total current liabilities | | **1,047,631** | 1,009,693 |
| **NET CURRENT ASSETS** | | **1,296,311** | 1,072,888 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,711,711** | 1,406,859 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 16 | **6,761** | – |
| Net assets | | **1,704,950** | 1,406,859 |

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Net assets | | **1,704,950** | 1,406,859 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | 28 | **85,389** | 84,041 |
| Reserves | 30(a) | **1,561,634** | 1,277,258 |
| Proposed final dividend | 11 | **51,233** | 37,818 |
| | | **1,698,256** | 1,399,117 |
| Minority interests | | **6,694** | 7,742 |
| Total equity | | **1,704,950** | 1,406,859 |

**Fok Tung Ling**
*Director*

**Chan Kai Leung, Clement**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

| | | 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 | 28 | 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 | 30(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 |

| | Notes | Attributable to equity holders of the parent | | | | | | | | | | Minority interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 | | |
| At 1 January 2007 | | 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 |
| Arising on revaluation of land and buildings | 13 | – | – | – | – | 14,910 | – | – | – | – | 14,910 | – | 14,910 |
| Exchange realignment | | – | – | – | – | – | – | 95,836 | – | – | 95,836 | – | 95,836 |
| Total income and expense recognised directly in equity | | – | – | – | – | 14,910 | – | 95,836 | – | – | 110,746 | – | 110,746 |
| Profit for the year | | – | – | – | – | – | – | – | 191,619 | – | 191,619 | (1,048) | 190,571 |
| Total income and expense for the year | | – | – | – | – | 14,910 | – | 95,836 | 191,619 | – | 302,365 | (1,048) | 301,317 |
| Final 2006 dividend declared | | – | – | – | – | – | – | – | – | (38,261) | (38,261) | – | (38,261) |
| Issue of new shares | 28 | 1,348 | 36,938 | (7,437) | – | – | – | – | – | – | 30,849 | – | 30,849 |
| Equity-settled share option expenses | | – | – | 10,947 | – | – | – | – | – | – | 10,947 | – | 10,947 |
| Adjustment arising from lapse of share option | | – | – | (1,245) | – | – | – | – | 1,245 | – | – | – | – |
| Deferred tax liabilities on increase in property value | | – | – | – | – | (6,761) | – | – | – | – | (6,761) | – | (6,761) |
| Under-provision of final 2006 dividend | | – | – | – | – | – | – | – | (443) | 443 | – | – | – |
| Proposed final 2007 dividend | 11 | – | – | – | – | – | – | – | (51,233) | 51,233 | – | – | – |
| Transfer from retained profits | 30(a) | – | – | – | – | – | 615 | – | (615) | – | – | – | – |
| At 31 December 2007 | | 85,389 | 377,508* | 49,227* | 46,510* | 30,801* | 71,937* | 174,414* | 811,237* | 51,233 | 1,698,256 | 6,694 | 1,704,950 |

* These reserve accounts comprise the consolidated reserves of HK$1,561,634,000 (2006: HK$1,277,258,000) in the consolidated balance sheet.

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **197,764** | 147,786 |
| Adjustments for: | | | |
| Interest income | 5 | **(3,046)** | (4,374) |
| Finance costs | 7 | **7,973** | 15,918 |
| Depreciation | 6 | **44,439** | 34,138 |
| Recognition of prepaid land lease payments | 6 | **325** | 305 |
| Amortisation of intangible assets | 6 | **8,388** | 3,702 |
| Loss on disposal of items of property, plant and equipment | 6 | **570** | 48 |
| Write down of inventories to net realisable value | 6 | **5,790** | – |
| Equity-settled share option expense | | **10,947** | 14,530 |
| | | **273,150** | 212,053 |
| Increase in inventories | | **(142,767)** | (44,841) |
| Increase in trade receivables | | **(259,217)** | (222,136) |
| Decrease in notes receivable | | **4,369** | 11,807 |
| Decrease in prepayments, deposits and other receivables | | **15,993** | 15,425 |
| Increase in trade and bills payables | | **47,693** | 134,047 |
| Increase in other payables and accruals | | **33,940** | 23,720 |
| Increase in provision for product warranties | | **12,830** | 4,186 |
| Increase in restricted bank deposits | | **(3,770)** | (2,109) |
| Decrease in factored trade receivables | | **–** | 115,296 |
| Increase in bank advances on factored trade receivables | | **–** | (115,296) |
| Cash generated from operations | | **(17,779)** | 132,152 |
| PRC profits tax paid | | **(30,737)** | (27,555) |
| Overseas taxes paid | | **(1,060)** | (310) |
| Net cash (outflow)/inflow from operating activities | | **(49,576)** | 104,287 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **3,046** | 4,374 |
| Purchases of items of property, plant and equipment | 13 | **(49,366)** | (93,773) |
| Acquisition of a subsidiary | 31 | **(8,194)** | – |
| Acquisition of intangible assets | 17 | **(9,896)** | (410) |
| Proceeds from disposal of items of property, plant and equipment | | **398** | 1,273 |
| Decrease in short term time deposits and pledged time deposits | | **–** | 178,296 |
| Net cash (outflow)/inflow from investing activities | | **(64,012)** | 89,760 |

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Net cash (outflow)/inflow from investing activities | | **(64,012)** | 89,760 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | 28 | **30,849** | 16,655 |
| New bank loans | | **189,370** | 124,589 |
| Repayment of bank loans | | **(263,172)** | (167,771) |
| Capital element of finance lease rental payments | | **–** | (180) |
| Interest paid | | **(7,973)** | (15,904) |
| Interest element on finance lease rental payments | | **–** | (14) |
| Dividends paid | | **(38,261)** | (25,059) |
| Net cash outflow from financing activities | | **(89,187)** | (67,684) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **(202,775)** | 126,363 |
| Cash and cash equivalents at beginning of year | | **492,737** | 314,118 |
| Effect of foreign exchange rate changes, net | | **84,534** | 52,256 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **374,496** | 492,737 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 23 | **374,181** | 491,055 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **315** | 1,682 |
| | | **374,496** | 492,737 |

# BALANCE SHEET

31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in subsidiaries | 18 | **377,425** | 374,295 |
| Loan to subsidiary | 18 | **234,436** | 235,615 |
| Total non-current assets | | **611,861** | 609,910 |
| **CURRENT ASSETS** | | | |
| Due from subsidiaries | 18 | **351,200** | 291,200 |
| Prepayments, deposits and other receivables | 22 | **38** | 243 |
| Cash and cash equivalents | 23 | **594** | 7,583 |
| Total current assets | | **351,832** | 299,026 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 25 | **6,200** | 3,392 |
| **NET CURRENT ASSETS** | | **345,632** | 295,634 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **957,493** | 905,544 |
| **NON-CURRENT LIABILITIES** | | | |
| Financial guarantee contracts | 32 | **2,697** | 1,187 |
| Net assets | | **954,796** | 904,357 |
| **EQUITY** | | | |
| Issued capital | 28 | **85,389** | 84,041 |
| Reserves | 30(b) | **818,174** | 782,498 |
| Proposed final dividend | 11 | **51,233** | 37,818 |
| Total equity | | **954,796** | 904,357 |

**Fok Tung Ling**
*Director*

**Chan Kai Leung, Clement**
*Director*

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") 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 all Hong Kong Financial Reporting Standards, 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 (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

# Notes to Financial Statements

31 December 2007

## 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 interpretations has had no material effect on these financial statements.

| | |
|---|---|
| HKFRS 7 | *Financial Instruments: Disclosures* |
| HKAS 1 Amendment | *Capital Disclosures* |
| 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* |

The principal effects of adopting these new and revised HKFRSs are as follows:

**(a) HKFRS 7 *Financial Instruments: Disclosures***

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

**(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures***

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 37 to the financial statements.

**(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2***

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. The interpretation has had no effect on these financial statements.

**(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives***

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

**(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment***

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

## 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.

| | |
|---|---|
| HKFRS 8 | *Operating Segments*[1] |
| HKAS 1 (Revised) | *Presentation of Financial Statements*[1] |
| HKAS 23 (Revised) | *Borrowing Costs*[1] |
| HK(IFRIC)-Int 11 | *HKFRS 2 — Group and Treasury Share Transactions*[2] |
| HK(IFRIC)-Int 12 | *Service Concession Arrangements*[4] |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes*[3] |
| HK(IFRIC)-Int 14 | *HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised and it sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content. The Group expects to adopt HKAS 1 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 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 acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

### Goodwill (continued)

*Goodwill on acquisitions for which the agreement date is on or after 1 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. The Group performs its annual impairment test of goodwill as at 31 December.

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

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

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.

*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, the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

# Notes to Financial Statements

31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of non-financial assets other than goodwill** (continued)

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, but 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.

**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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 |

*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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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.

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 less any allowance for impairment. 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.

**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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

# Notes to Financial Statements

31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets** (continued)

*Assets carried at amortised cost* (continued)

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 by adjusting the allowance account. 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

**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.

**Derecognition of financial assets** (continued)

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 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. The related interest expense is recognised within "finance costs" in the income statement.

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

**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 less 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*.

**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.

# Notes to Financial Statements

31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the 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.

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.

**Income tax** (continued)

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.

**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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 29 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.

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.

**Employee benefits** (continued)

*Share-based payment transactions* (continued)

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 directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use of sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised.

**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.

**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.

# Notes to Financial Statements

31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies** (continued)

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

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

**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.

*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 2007 was approximately HK$30,110,000 (2006: 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.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)



**Estimation uncertainty** (continued)

*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:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services | **1,768,418** | 1,550,441 |
| **Other income and gain** | | |
| Bank interest income | **3,046** | 4,374 |
| Exchange gain, net | **11,630** | 5,280 |
| Government subsidy* | **5,130** | 1,155 |
| Others | **3,960** | 990 |
| | **23,766** | 11,799 |

* Government subsidy of HK$5,130,000 (equivalent to RMB5,000,000) has been received for rewarding the establishment of the Group's headquarters in Guangzhou. There are no unfulfilled conditions or contingencies relating to this subsidy.

# Notes to Financial Statements

31 December 2007

## 6. PROFIT BEFORE TAX

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

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Cost of inventories sold and services provided | | **978,765** | 937,958 |
| Depreciation | 13 | **44,439** | 34,138 |
| Recognition of prepaid land lease payments | 14 | **325** | 305 |
| Amortisation of intangible assets | 17 | **8,388** | 3,702 |
| Minimum lease payments under operating leases in respect of land and buildings | | **28,529** | 30,828 |
| Auditors' remuneration | | **2,469** | 2,480 |
| Employee benefits expense (excluding directors' emoluments): | | | |
| Salaries and wages | | **287,332** | 230,779 |
| Staff welfare expenses | | **25,727** | 22,004 |
| Equity-settled share option expenses | | **9,814** | 12,672 |
| Pension scheme contributions# | | **22,165** | 18,484 |
| | | **345,038** | 283,939 |
| Impairment of trade receivables | | **–** | 6,412 |
| Write-down of inventories to net realisable value | | **5,790** | – |
| Provision for product warranties | 27 | **48,847** | 25,943 |
| Loss on disposal of items of property, plant and equipment | | **570** | 48 |

# At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

## 7. FINANCE COSTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest on bank loans wholly repayable within one year | **7,973** | 13,126 |
| Interest on finance leases | **–** | 14 |
| Finance costs on the factored trade receivables | **–** | 2,778 |
| | **7,973** | 15,918 |

## 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 | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Fees | **540** | 539 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **10,831** | 10,282 |
| Performance related bonuses* | **4,843** | 3,665 |
| Employee share option benefits | **1,133** | 1,858 |
| Pension scheme contributions | **208** | 195 |
| | **17,015** | 16,000 |
| | **17,555** | 16,539 |

* 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 29 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:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'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 (2006: Nil).

# Notes to Financial Statements

31 December 2007

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

### (b) Executive directors

| 2007 | 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 |
|---|---|---|---|---|---|---|
| **Executive directors:** | | | | | | |
| Mr. Fok | – | 2,097 | 1,031 | – | 12 | 3,140 |
| Mr. Zhang | – | 1,696 | 986 | – | 43 | 2,725 |
| Mr. Chan | – | 1,575 | 218 | 75 | 12 | 1,880 |
| Mr. Wu | – | 1,319 | 1,148 | 37 | 43 | 2,547 |
| Mr. Yan | – | 1,119 | 1,125 | 37 | 43 | 2,324 |
| Mr. Zheng | 100 | 1,404 | – | – | 43 | 1,547 |
| Mr. Yeung | – | 1,621 | 335 | 984 | 12 | 2,952 |
| | 100 | 10,831 | 4,843 | 1,133 | 208 | 17,115 |

| 2006 | 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 |
|---|---|---|---|---|---|---|
| Executive directors: | | | | | | |
| 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 |

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 (2006: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one non-director, highest paid employee are as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,302** | 1,436 |
| Employee share option benefits | **34** | 656 |
| Pension scheme contributions | **282** | 42 |
| | **2,618** | 2,134 |

## 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 (2006: 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.

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Current year provision: | | |
| Mainland China | **37,129** | 29,954 |
| Overseas | **1,060** | 484 |
| Deferred tax (Note 16) | **(30,996)** | (13,877) |
| Total tax charge for the year | **7,193** | 16,561 |

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%.

# Notes to Financial Statements

31 December 2007

## 9. TAX (continued)

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:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Profit before tax | **197,764** | | 147,786 | |
| Tax at the applicable rate | **29,665** | **15.0** | 22,168 | 15.0 |
| Net expenses not deductible for tax | **7,427** | **3.7** | 7,427 | 5.0 |
| Effect of increase in rate on opening deferred tax | **(29,454)** | **(14.9)** | – | – |
| Tax losses not recognised | **17,450** | **8.8** | 15,212 | 10.3 |
| Tax exemptions | **(17,895)** | **(9.0)** | (28,246) | (19.1) |
| Tax charge at the Group's effective rate | **7,193** | **3.6** | 16,561 | 11.2 |

The Group has tax losses arising in Hong Kong and other countries of HK$116,333,000 (2006: HK$101,413,000) 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 2007.

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

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an adjustment of income tax rate to 25%. The effect of this change has been reflected in the calculation of deferred income tax as at 31 December 2007. Comba Guangzhou, being a manufacturing Foreign Invested Enterprise ("FIE"), located in Guangzhou Economic and Technology Development Zone, is eligible to enjoy transitional arrangement under the New Corporate Income Tax Law. The income tax rate of Comba Guangzhou will be 18% in 2008.

Deferred tax rate in 2007 was 18% (2006: 10%).

## 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 2007 includes a profit of HK$46,904,000 (2006: HK$41,736,000) which has been dealt with in the financial statements of the Company (note 30(b)).

## 11. DIVIDEND

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Proposed final — HK 6 cents (2006: HK 4.5 cents) per ordinary share | **51,233** | 37,818 |

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:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations | **191,619** | 131,140 |

| | Number of shares | |
|---|---|---|
| | 2007 | 2006 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **849,353,000** | 835,860,000 |
| Effect of dilution — weighted average number of ordinary shares | **8,525,000** | 7,524,000 |
| | **857,878,000** | 843,384,000 |

# Notes to Financial Statements

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## 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 2007** | | | | | | |
| At 31 December 2006 and at 1 January 2007: | | | | | | |
| 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 |
| At 1 January 2007, net of accumulated depreciation | 136,623 | 85,403 | 30,159 | 5,539 | – | 257,724 |
| Additions | 2,678 | 27,819 | 16,705 | 2,059 | 105 | 49,366 |
| Surplus on revaluation | 14,910 | – | – | – | – | 14,910 |
| Disposals | – | (206) | (691) | (71) | – | (968) |
| Depreciation provided during the year | (6,731) | (26,202) | (9,925) | (1,581) | – | (44,439) |
| Exchange realignment | 8,262 | 6,443 | 2,031 | 371 | – | 17,107 |
| **At 31 December 2007, net of accumulated depreciation** | 155,742 | 93,257 | 38,279 | 6,317 | 105 | 293,700 |
| At 31 December 2007: | | | | | | |
| Cost or valuation | 157,419 | 183,471 | 77,804 | 15,664 | 105 | 434,463 |
| Accumulated depreciation | (1,677) | (90,214) | (39,525) | (9,347) | – | (140,763) |
| Net carrying amount | 155,742 | 93,257 | 38,279 | 6,317 | 105 | 293,700 |
| Analysis of cost or valuation: | | | | | | |
| At cost | 2,867 | 183,471 | 77,804 | 15,664 | 105 | 279,911 |
| At valuation | 154,552 | – | – | – | – | 154,552 |
| | 157,419 | 183,471 | 77,804 | 15,664 | 105 | 434,463 |

## 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 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) |
| Depreciation 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 |

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## 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$154,552,000 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$116,990,000 at the balance sheet date. At 31 December 2007, 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$1,768,000. A revaluation surplus of HK$14,910,000, 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:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| At valuation: | | |
| Long term leases | **8,946** | 6,280 |
| Medium term leases | **145,606** | 128,318 |
| | **154,552** | 134,598 |
| At cost: | | |
| Long term leases | **2,867** | 2,867 |
| | **157,419** | 137,465 |

## 14. PREPAID LAND LEASE PAYMENTS

| | **Group** | |
|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 |
| Carrying amount at 1 January | **13,525** | 13,332 |
| Recognised during the year | **(325)** | (305) |
| Exchange realignment | **978** | 498 |
| Carrying amount at 31 December | **14,178** | 13,525 |
| Current portion included in prepayments, deposits and other receivables | **(325)** | (305) |
| Non-current portion | **13,853** | 13,220 |

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 2007 and 31 December 2006 | **21,916** |
| Cost at 1 January 2007, net of accumulated impairment | **21,916** |
| Acquisition of a subsidiary (note 31) | **8,194** |
| Cost and net carrying amount at 31 December | **30,110** |
| Cost and net carrying amount at 1 January 2008 and 31 December 2007 | **30,110** |

**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

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Deferred tax assets: | | |
| At beginning of year | **34,232** | 19,318 |
| Deferred tax credited to the income statement during the year (note 9) | **30,996** | 13,877 |
| Exchange realignment | **3,769** | 1,037 |
| At end of year | **68,997** | 34,232 |

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## 16. DEFERRED TAX (continued)

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Deferred tax assets: | | |
| Unrealised profit arising on consolidation | **68,997** | 34,232 |

| | Group Revaluation of Properties HK$'000 |
|---|---|
| Deferred Tax Liabilities | |
| At 1 Jan 2007 | – |
| Deferred tax debited to equity during the year | 6,761 |
| Closing deferred tax liabilities at 31 Dec 2007 | 6,761 |

## 17. OTHER INTANGIBLE ASSETS

| Group | Computer software HK$'000 |
| --- | --- |
| **31 December 2007** | |
| Cost at 1 January 2007, net of accumulated amortisation | **5,250** |
| Additions | **9,896** |
| Amortisation provided during the year | **(8,388)** |
| Exchange realignment | **366** |
| **At 31 December 2007** | **7,124** |
| At 31 December 2007: | |
| Cost | **24,904** |
| Accumulated amortisation | **(17,780)** |
| Net carrying amount | **7,124** |
| 31 December 2006 | |
| At 1 January 2006: | |
| Cost | 13,161 |
| Accumulated amortisation | (4,919) |
| Net carrying amount | 8,242 |
| 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 and at 1 January 2007: | |
| Cost | 14,052 |
| Accumulated amortisation | (8,802) |
| Net carrying amount | 5,250 |

## 18. INTERESTS IN SUBSIDIARIES

| | Company 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **374,728** | 373,108 |
| Financial guarantees granted to subsidiaries (note 32) | **2,697** | 1,187 |
| | **377,425** | 374,295 |

The amounts due from subsidiaries included in the Company's current assets of HK$351,200,000 (2006: HK$291,200,000) are unsecured, interest-free and are repayable on demand or within one year. The loan to the subsidiary is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. 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 |

## 18. INTERESTS IN SUBSIDIARIES (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 ("Cascade") | British Virgin Islands | US$1 | – | 100 | Investment holding |
| WaveLab Holdings Limited ("WaveLab Holdings") | Cayman Islands | US$1,000 | – | 60 | Investment holding |

# Notes to Financial Statements

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## 18. INTERESTS IN SUBSIDIARIES (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 |
|---|---|---|---|---|---|
| WaveLab, Inc., ("WaveLab") | State of Virginia/ United States of America | No par value | – | 60 | Research and development of digital microwave system equipment |
| WaveLab Asia Holdings Limited ("WaveLab Asia") | 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* ("WaveLab Guangzhou") | 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$50,000,000 | – | 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 |
| Right Track Technology Limited | British Virgin Islands | US$1 | – | 100 | Dormant |

## 18. INTERESTS IN SUBSIDIARIES (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 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 | BRL446,459 | – | 100 | Trading of wireless telecommunications network enhancement system equipment |
| Guangzhou Taipu Wireless Telecommunication Equipment Co Ltd ("Taipu")+ | PRC/ Mainland China | RMB1,000,000 | – | 100 | Trading of wireless telecommunications network enhancement system equipment |

# Notes to Financial Statements

31 December 2007

## 18. INTERESTS IN SUBSIDIARIES (continued)

Notes:

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

+ During the year, the group has acquired "Taipu" from an independent third party at a consideration of HK$9,220,500. Further details of this acquisition are included in note 31.

## 19. INVENTORIES

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Raw materials | **63,702** | 61,228 |
| Project materials | **281,197** | 191,374 |
| Work in progress | **53,663** | 47,501 |
| Finished goods | **356,204** | 317,686 |
| | **754,766** | 617,789 |

## 20. TRADE RECEIVABLES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **1,120,422** | 861,365 |
| Provision for impairment | **(20,779)** | (20,939) |
| | **1,099,643** | 840,426 |

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.

## 20. TRADE RECEIVABLES (continued)

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Within 3 months | **573,754** | 356,184 |
| 4 to 6 months | **68,257** | 77,613 |
| 7 to 12 months | **192,888** | 133,160 |
| More than 1 year | **285,523** | 294,408 |
| | **1,120,422** | 861,365 |
| Provision for impairment | **(20,779)** | (20,939) |
| | **1,099,643** | 840,426 |

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

| | Group | |
|---|---|---|
| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
| At 1 January | **20,939** | 14,527 |
| Impairment losses recognised (note 6) | **—** | 6,412 |
| Amount written back | **(160)** | — |
| | **20,779** | 20,939 |

The impaired trade receivables relate to customers who have not settled the sales invoices when they fall due and it is expected that a portion of the receivables might not be recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

| | Group | |
|---|---|---|
| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
| Neither past due nor impaired | **969,831** | 669,563 |
| Less than 1 year past due | **79,508** | 51,779 |
| | **1,049,339** | 721,342 |

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

# Notes to Financial Statements

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## 20. TRADE RECEIVABLES (continued)

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

## 21. NOTES RECEIVABLE

At 31 December 2007, the Group had endorsed commercial notes of approximately HK$5,107,000 (2006: 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$5,107,000 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 24).

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments | **25,629** | 31,927 | **38** | – |
| Deposits | **3,935** | 1,324 | **–** | – |
| Other receivables | **51,838** | 64,144 | **–** | 243 |
| | **81,402** | 97,395 | **38** | 243 |

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

## 23. CASH AND CASH EQUIVALENTS, RESTRICTED BANK DEPOSITS, SHORT TERM TIME DEPOSIT AND PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **374,181** | 491,055 | **594** | 5,901 |
| Time deposits | **6,181** | 3,791 | **–** | 1,682 |
| | **380,362** | 494,846 | **594** | 7,583 |
| Less: | | | | |
| Restricted bank deposits for performance bonds | **(5,866)** | (2,109) | **–** | – |
| | **(5,866)** | (2,109) | **–** | – |
| Cash and cash equivalents | **374,496** | 492,737 | **594** | 7,583 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$333,343,000 (2006: HK$462,948,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks 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 bank balance and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

# Notes to Financial Statements

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## 24. 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:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Within 3 months | **311,449** | 335,996 |
| 4 to 6 months | **152,563** | 88,319 |
| 7 to 12 months | **60,944** | 50,418 |
| More than 1 year | **23,513** | 26,043 |
| | **548,469** | 500,776 |

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 2007, the Group had endorsed commercial notes of approximately HK$5,107,000 to certain suppliers with recourse as settlement of the payable balance. The settlement to the relevant suppliers of approximately HK$5,107,000 were recognised as liabilities and included in the above balance.

## 25. OTHER PAYABLES AND ACCRUALS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Accruals | **90,028** | 79,594 | **2,695** | 2,230 |
| Deposits received | **124,639** | 116,462 | **–** | – |
| Other payables | **127,029** | 111,700 | **3,505** | 1,162 |
| | **341,696** | 307,756 | **6,200** | 3,392 |

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

## 26. INTEREST-BEARING BANK LOANS

All the bank loans at 31 December 2007 and 31 December 2006 are unsecured and wholly repayable within one year. Loans denominated in RMB amounted to HK$60,922,000 and loans denominated in Hong Kong dollars amounted to HK$27,872,000. The bank loans bear interest at rates ranging from 3.00% to 6.48% (2006: from 4.96% to 5.58%) per annum.

## 27. PROVISIONS FOR PRODUCT WARRANTIES

| | **Group** | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| At beginning of the year | **26,039** | 21,066 |
| Additional provisions | **48,847** | 25,943 |
| Amounts utilised during the year | **(36,017)** | (22,398) |
| Exchange realignment | **1,197** | 1,428 |
| At end of year | **40,066** | 26,039 |

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.

## 28. SHARE CAPITAL

| | **2007** | 2006 |
|---|---|---|
| **Shares** | **HK$'000** | HK$'000 |
| Authorised: | | |
| 5,000,000,000 (2006: 5,000,000,000) ordinary shares of HK$0.10 each | **500,000** | 500,000 |
| Issued and fully paid or credited as fully paid: | | |
| 853,891,500 (2006: 840,411,000) ordinary shares of HK$0.10 each | **85,389** | 84,041 |

During the year, the subscription rights attaching to 13,480,500 share options were exercised at the subscription prices of HK$2.25 to HK$3.925 per share (note 29), resulting in issue of 13,480,500 shares of HK$0.10 each for a total cash consideration of HK$30,849,000.

## 28. 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 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 and 1 January 2007 | 840,411,000 | 84,041 | 340,570 | 424,611 |
| Share options exercised | 13,480,500 | 1,348 | 36,938 | 38,286 |
| **At 31 December 2007** | **853,891,500** | **85,389** | **377,508** | **462,897** |

**Share options**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

## 29. 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, licensees, 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.

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 2007

## 29. SHARE OPTION SCHEME (continued)

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

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Weighted average exercise price per share HK$** | **Number of options '000** | Weighted average exercise price per share HK$ | Number of options '000 |
| At 1 January | **2.97** | **69,879** | 2.91 | 80,604 |
| Granted during the year | **2.88** | **6,600** | – | – |
| Forfeited during the year | **3.40** | **(2,591)** | 3.02 | (3,332) |
| Exercised during the year | **2.29** | **(13,480)** | 2.25 | (7,393) |
| At 31 December | **3.10** | **60,408** | 2.97 | 69,879 |

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.62 (2006: HK$3.24).

## 29. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

| **Number of options '000** | **2007 Exercise price* per share HK$** | **Exercise period** |
|---|---|---|
| **13,963** | **2.25** | **15 July 2004 to 14 July 2008** |
| **23,188** | **3.925** | **27 May 2005 to 26 May 2009** |
| **2,000** | **3.65** | **7 November 2004 to 6 October 2009** |
| **14,840** | **2.625** | **22 December 2006 to 21 December 2010** |
| **6,417** | **2.88** | **8 March 2008 to 7 March 2010** |
| **60,408** | | |

| Number of options '000 | 2006 Exercise price* per share HK$ | Exercise period |
|---|---|---|
| 26,219 | 2.25 | 15 July 2004 to 14 July 2008 |
| 24,750 | 3.925 | 27 May 2005 to 26 May 2009 |
| 2,000 | 3.65 | 7 November 2004 to 6 October 2009 |
| 16,910 | 2.625 | 22 December 2006 to 21 December 2010 |
| 69,879 | | |

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

# Notes to Financial Statements

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## 29. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was HK$4,528,000 (HK$0.6861 each) (2006: Nil).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **2007** | 2006 |
|---|---|---|
| Dividend yield (%) | **2.5** | Nil |
| Expected volatility (%) | **43** | Nil |
| Risk-free interest rate (%) | **4.021** | Nil |
| Expected life of options (year) | **2** | Nil |
| Closing share price at date of grant (HK$) | **2.88** | Nil |

The expected life of the options is based on the historical data over the past few years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 13,480,500 share options exercised during the year resulted in the issue of 13,480,500 ordinary shares of the Company and new share capital of HK$1,348,000 and share premium of HK$36,938,000, as detailed in note 28 to the financial statements.

At the balance sheet date, the Company had 60,408,000 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 60,408,000 additional ordinary shares of the Company and additional share capital of HK$6,041,000 and share premium of HK$181,125,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 60,408,000 share options outstanding under the Scheme, which represented approximately 7% of the Company's shares in issue as at that date.

## 30. 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 pages 42 and 43 of the financial statements.

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

### (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 2006 | 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 |
| Issue of shares | **36,938** | **–** | **(7,437)** | **–** | **29,501** |
| Profit for the year | **–** | **–** | **–** | **46,904** | **46,904** |
| Share option lapsed | **–** | **–** | **(1,245)** | **728** | **(517)** |
| Equity-settled share option expenses | **–** | **–** | **10,947** | **–** | **10,947** |
| Over-provision of final 2006 dividend | **–** | **–** | **–** | **74** | **74** |
| Proposed final 2007 dividend | **–** | **–** | **–** | **(51,233)** | **(51,233)** |
| **At 31 December 2007** | **377,508** | **373,108** | **49,227** | **18,331** | **818,174** |

* 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.

# Notes to Financial Statements

31 December 2007

## 31. BUSINESS COMBINATION

On 31 May 2007, the Group acquired a 100% interest in Guangzhou Taipu Wireless Telecommunication Equipment Co., Ltd ("Taipu") from an independent third party. Taipu is engaged in the trading of wireless communication equipment. The purchase consideration for the acquisition was in the form of cash, with HK$9,221,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Taipu as at the date of acquisition is approximate to its corresponding carrying amounts immediately before the acquisition as follows:

| | Notes | Previous carrying amount and fair value HK$'000 |
|---|---|---|
| Cash and bank balances | | 1,027 |
| Goodwill on acquisition | 15 | 8,194 |
| Satisfied by cash | | 9,221 |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | (9,221) |
| Cash and bank balances acquired | 1,027 |
| Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary | (8,194) |

Since its acquisition, Taipu contributed HK$33,979,000 to the Group's turnover and HK$3,097,000 to the consolidated profit for the year ended 31 December 2007.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$33,979,000 and HK$ 3,097,000, respectively.

## 31. BUSINESS COMBINATION (continued)

The goodwill of HK$8,194,000 recognised above is a customer list, which is not recognised separately. Because the list is subject to a confidentiality agreement, it is not separable and therefore it does not meet the criteria for recognition as an intangible asset under HKAS 38 Intangible Assets.

## 32. CONTINGENT LIABILITIES

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to banks in respect of performance bonds | **5,866** | 2,109 | **–** | – |
| Guarantees given to banks in connection with facilities granted to subsidiaries | **–** | – | **241,400** | 189,693 |
| | **5,866** | 2,109 | **241,400** | 189,693 |

As at 31 December 2007, 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$27,872,000 (2006: HK$46,936,000). 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$2,697,000 (2006: HK$1,187,000). The financial guarantee contract was eliminated on consolidation.

## 33. OPERATING LEASE ARRANGEMENTS

### As lessee

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

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **23,452** | 12,476 | **–** | – |
| In the second to fifth years, inclusive | **20,448** | 5,773 | **–** | – |
| After five year | **12,440** | – | **–** | – |
| | **56,340** | 18,249 | **–** | – |

# Notes to Financial Statements

31 December 2007

## 34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following capital commitments for the procurement of production facilities at the balance sheet date:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | | | |
| Plant and machinery | **183** | 1,931 | **–** | – |
| Intangible assets | **90** | – | **–** | – |

## 35. 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 | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Short term employee benefits | **16,214** | 14,486 |
| Post-employment benefits | **208** | 195 |
| Share-based payments | **1,133** | 1,858 |
| Total compensation paid to key management personnel | **17,555** | 16,539 |

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

## 36. FINANCIAL INSTRUMENTS BY CATEGORY



The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

| 2007<br>Financial assets | Group<br>Loans and receivables<br>HK$'000 |
|---|---|
| Trade and notes receivables | 1,129,028 |
| Financial assets included in prepayments, deposits and other receivables (note 22) | 55,773 |
| Restricted bank deposits for performance bonds | 5,866 |
| Cash and cash equivalents | 374,496 |
| | 1,565,163 |

| Financial liabilities | Financial liabilities at amortised cost<br>HK$'000 |
|---|---|
| Trade and bills payables | 548,469 |
| Financial liabilities included in other payables and accruals (note 25) | 251,668 |
| Interest-bearing bank loans | 88,794 |
| | 888,931 |

## 36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

| 2006 | Group |
|---|---|
| Financial assets | Loans and receivables HK$'000 |
| Trade and notes receivables | 874,180 |
| Financial assets included in prepayments, deposits and other receivables (note 22) | 65,468 |
| Restricted and pledged bank deposits | 2,109 |
| Cash and cash equivalents | 492,737 |
| | 1,434,494 |

| Financial liabilities | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Trade and bills payables | 500,776 |
| Financial liabilities included in other payables and accruals (note 25) | 228,162 |
| Interest-bearing bank loans | 152,908 |
| | 881,846 |

## 36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)



The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

| Financial assets | Company 2007 Loans and receivables HK$'000 | 2006 Loans and receivables HK$'000 |
|---|---|---|
| Financial assets included in prepayments, deposits and other receivables (note 22) | **–** | 243 |
| Cash and cash equivalents | **594** | 7,583 |
| | **594** | 7,826 |

| Financial liabilities | 2007 Other financial liabilities HK$'000 | 2007 Financial liabilities at amortised cost HK$'000 | 2007 Total HK$'000 | 2006 Other financial liabilities HK$'000 | 2006 Financial liabilities at amortised cost HK$'000 | 2006 Total HK$'000 |
|---|---|---|---|---|---|---|
| Financial liabilities included in other payables and accruals (note 25) | **–** | **3,505** | **3,505** | – | 1,162 | 1,162 |
| Financial guarantee contracts | **2,697** | **–** | **2,697** | 1,187 | – | 1,187 |
| | **2,697** | **3,505** | **6,202** | 1,187 | 1,162 | 2,349 |

## 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)

### Interest rate risk

The interest rate and terms of repayment of interest-bearing loans are disclosed in note 26. 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. The Group has no transactional currency exposure.

### Credit risk

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, and trade receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

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.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty by geographical region. At balance sheet date, the Group has concentration of credit risk as 48% (2006: 41%) of the Group's trade receivables were due from the Group's largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

### Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purpose. All borrowings and payables mature in less than one year.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is interest-bearing bank loans divided by the total assets. The gearing ratios as at the balance sheets dates were as follows:

| Group | 2007<br>HK'000 | 2006<br>HK'000 |
|---|---|---|
| Interest-bearing bank loans | **88,794** | 152,908 |
| Total assets | **2,759,342** | 2,416,552 |
| Gearing ratio | **3.2%** | 6.3% |

## 38. COMPARATIVE AMOUNTS

During the year, certain comparative amounts have been adjusted to conform with the current year's presentation.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2008.

# 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 | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| REVENUE | **1,768,418** | 1,550,441 | 1,170,515 | 1,092,761 | 806,232 |
| Cost of sales | **(1,087,161)** | (963,901) | (696,189) | (529,382) | (404,673) |
| Gross profit | **681,257** | 586,540 | 474,326 | 563,379 | 401,559 |
| Other income | **23,766** | 11,799 | 8,851 | 8,705 | 3,990 |
| Research and development costs | **(91,087)** | (76,267) | (62,509) | (37,057) | (27,334) |
| Selling and distribution costs | **(134,953)** | (107,472) | (86,955) | (69,391) | (42,390) |
| Administrative expenses | **(271,712)** | (243,942) | (223,000) | (211,147) | (94,976) |
| Other expenses | **(1,534)** | (6,954) | (3,454) | (8,342) | (10,838) |
| Finance costs | **(7,973)** | (15,918) | (21,480) | (9,531) | (5,542) |
| PROFIT BEFORE TAX | **197,764** | 147,786 | 85,779 | 236,616 | 224,469 |
| Tax | **(7,193)** | (16,561) | (7,315) | (6,031) | (15,912) |
| PROFIT FOR THE YEAR | **190,571** | 131,225 | 78,464 | 230,585 | 208,557 |
| Attributable: | | | | | |
| Equity holders of the parent | **191,619** | 131,140 | 82,089 | 237,478 | 214,495 |
| Minority interests | **(1,048)** | 85 | (3,625) | (6,893) | (5,938) |
| **ASSETS, LIABILITIES AND MINORITY INTERESTS** | | | | | |
| TOTAL ASSETS | **2,759,342** | 2,416,552 | 2,182,236 | 1,828,652 | 1,317,930 |
| TOTAL LIABILITIES | **(1,054,392)** | (1,009,693) | (986,921) | (716,384) | (386,184) |
| MINORITY INTERESTS | **(6,694)** | (7,742) | (7,657) | (11,282) | (13,243) |
| | **1,698,256** | 1,399,117 | 1,187,658 | 1,100,986 | 918,503 |