Comba

京信通信系統控股有限公司

Comba Telecom Systems Holdings Limited

股份編號 Stock Code : 2342

INNOVATIVE IMPLEMENTATION BALANCED DEVELOPMENT

創新進步 均衡發展

2009 年報

Annual Report

Contents

Corporate Information

REGISTERED OFFICE
Cricket Square
Hutchins Drive
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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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Hong Kong Science Park
Tai Po
Hong Kong

COMPANY SECRETARY
Tong Chak Wai, Wilson

AUDIT COMMITTEE AND REMUNERATION COMMITTEE
Lau Siu Ki, Kevin
Yao Yan
Liu Cai

AUTHORIZED REPRESENTATIVES
Fok Tung Ling
Tong Chak Wai, Wilson

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fulcrum Group (Cayman) Limited
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai, Hong Kong

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

CITIC Ka Wah Bank Limited
9th Floor, Tower 1, Lippo Center
89 Queensway
Hong Kong

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Hong Kong Branch
2008 Hutchison House
10 Harcourt Road, Central
Hong Kong

Corporate Information

Standard Chartered Bank (Hong Kong) Limited
13th Floor Standard Chartered Bank Building
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DBS Bank (Hong Kong) Limited
16th Floor, The Center
99 Queen's Road Central
Central
Hong Kong

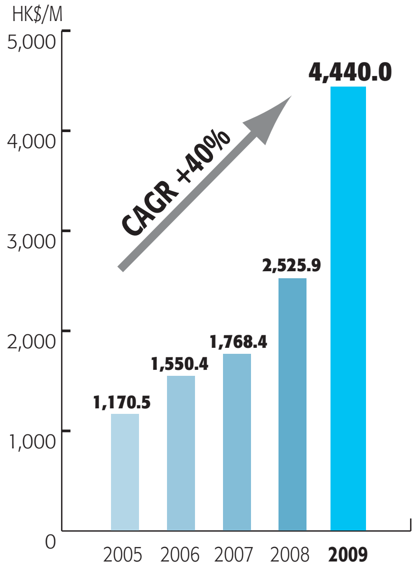
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road
GETD District
Guangzhou, PRC

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

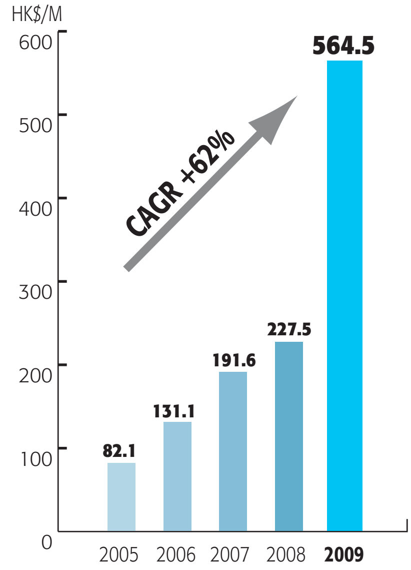
China Merchants Bank Co., Ltd.
Guangdong Branch Gaoxin Sub-branch
1 Huajing Road, 1st Floor, Southern Communication Plaza
Guangzhou, PRC

Financial Summary

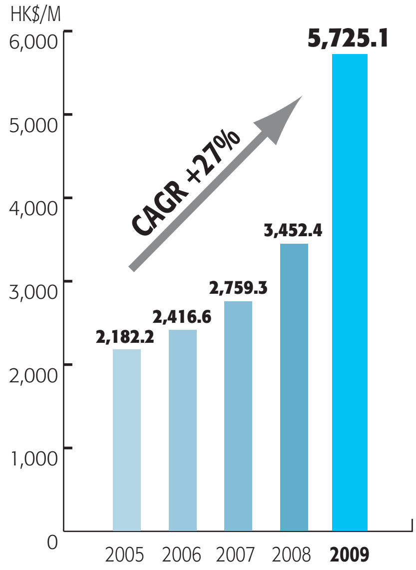
Revenue



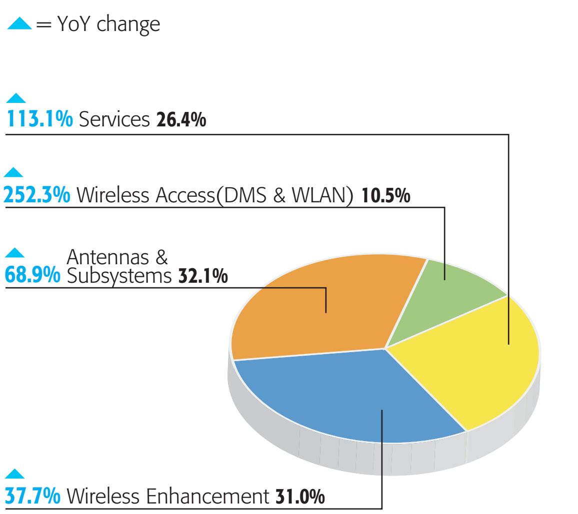
Profit Attributable to Shareholders



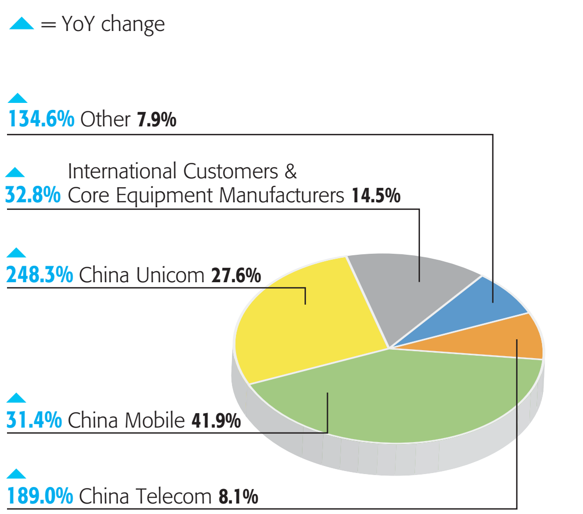
Total Assets



Revenue Breakdown by Businesses



Revenue Breakdown by Customers



Financial Summary

FINANCIAL SUMMARY

For the year ended 31 December	2009 HK$'000	2008 HK$'000	Change
Revenue	**4,439,991**	2,525,895	+75.8%
Gross profit	**1,681,923**	946,034	+77.8%
Operating profit	**765,331**	273,387	+179.9%
Profit attributable to shareholders	**564,500**	227,512	+148.1%
Basic EPS (HK cents)	**54.09**	22.05 *(Restated)*	+145.3%
Paid interim dividend per share (HK cents)	**6.0**	Nil	N/A
Proposed final dividend per share (HK cents)	**8.0**	7.0	+14.3%
Proposed special dividend per share (HK cents)	**4.0**	Nil	N/A
Total dividends (HK cents)	**18.0**	7.0	+157.1%
Issued bonus of shares (interim)	**1 for 10**	Nil	N/A
Proposed bonus issue of shares	**1 for 10**	1 for 10	N/A
Operating cash flow	**484,926**	214,661	+125.9%

KEY FINANCIAL FIGURES

As at 31 December	2009 HK$'000	2008 HK$'000	Change
Total assets	**5,725,107**	3,452,397	+65.8%
Net assets (before minority interest)	**2,536,342**	1,974,539	+28.5%
Net assets value per share (HK dollars)	**2.38**	1.93 *(restated)*	+23.3%
Cash and bank balances	**1,162,412**	473,424	+145.5%
Net Cash	**706,780**	416,922	+69.5%
Total liabilities	**3,131,992**	1,463,390	+114.0%
Current ratio	**1.8X**	2.0X	-10%
Inventory turnover days	**176**	209	-33 days
A/R turnover days	**139**	171	-32 days
A/P turnover days	**179**	170	+9 days
Return on average equity	**25%**	12.4%	+12.6% pts
Gross gearing ratio	**7.7%**	1.5%	+6.2% pts
Dividend payout ratio*	**33%**	26%#	+7% pts

* *Calculation is based on basic EPS.*

\# *Calculation is based on number of shares issued as at 31 December 2008.*

Corporate Milestone 2009

The completed third phase of production facilities.

Construction of the phase three logistic warehouse and production building at Guangzhou production base was completed in November 2009. The total floor area is 24,000m^2 and production capacity will increase by 150%. This will lay a foundation for the Group's persistent and rapid development.

The new generation of GRRU control platform and 32 carrier GRRU won the tender for Wuhan Guangzhou High Speed Rail and Expo 2010 Shanghai China projects respectively.

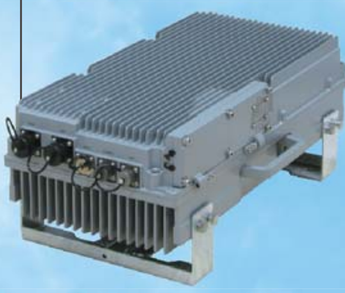
Successful development of 32 carrier GRRU.

Successful development of new generation of GRRU control platform.

First application of Microwave GRRU – Application sharing project of wave GRRU at Huizhou, Guangdong.

New product line developed under the crossover of technologies. The Group launched Microwave GRRU, Microwave WRRU, TD Microwave remote radio unit products successively and various trials were successfully completed.

Following GRRU, the Group developed and launched CDMA-RRU, TD-RRU, WCDMA-RRU and WiMax-RRU consecutively.



Wuhan Guangzhou High Speed Rail

Construction work undertaken at Jinshazhou (金沙洲) Tunnel of Wuhan Guangzhou High Speed Rail.

Wireless coverage for the Wuhan Guangzhou High Speed Rail achieved. This reaffirms our leading position in high speed rail coverage following our success in the wireless coverage in Beijing Tianjin High Speed Rail in 2008.

WLAN solutions launched and an accumulated order for nearly 30,000 units were received.

The Company entered into agreement with AT&T, an US operator with respect to Multi-Carrier Power Amplifier Tower Bottom Solution.

The Company entered into indoor and outdoor and metro multi-directional wireless system agreement with Metro Rio, a metro company in Brazil to enable wireless coverage for tunnel and stations.

Significant increase of ODU under OEM was recorded and an accumulated order of more than 60,000 units was received.

The Company entered into GOPA framework cooperation agreement and has become the accredited supplier of Ericsson.

The Company has become a worldwide qualified supplier of RF products upon certification by the headquarters of Alcatel Lucent.

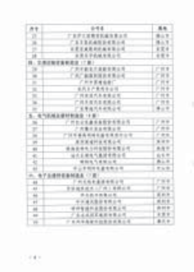
Completed Nokia-Siemens Networks accreditation and has become its network service provider in the PRC.

In December 2009, overcomes intense competition from international antenna suppliers to become a preferred base station antenna supplier for one of Russia's largest mobile operators.

In December 2009, a contract signed for the supply of a series of turnkey in-building solutions including design and consultation services for a major operator in the Middle East.

In August 2009, completion of a major wireless coverage project for Hong Kong CSL involving the provision of repeaters for the 2G and 3G networks in Hong Kong as well as the related commissioning and maintenance services.

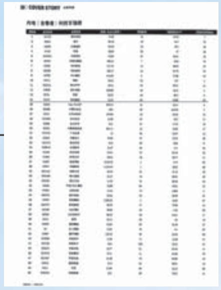
Onsite testing and configuration.



The Company was named one of the 50 "Major Enterprises in Equipment Manufacturing Industry in Guangdong" in the PRC by The Economic and Information Commission of Guangdong Province. Comba is one of the seven accredited enterprises in "Electronic and Communication Equipment Manufacturing Industry" including Huawei and ZTE.

The Company was awarded "Guangdong Wireless Communication Coverage and Transmission Technology Research and Development Center" by Guangdong Science and Technology Department and this affirms the Group's technology edges in wireless communication coverage and transmission.

Named by Forbes as "Asia's 200 Best Under A Billion".



Comba ranks 14th in "Top 100 Information Technology Companies in the PRC, Hong Kong and Taiwan" organized by CEOCIO China and this fully demonstrates the edges in technology and its integrated strength.

Comba was awarded "Hong Kong Outstanding Enterprise" in the "Hong Kong Outstanding Enterprises Parade 2009" organized by Economic Digest.

Comba was awarded "Top Ten Most Innovative Brand" in "2009 Greater Pearl River Region Brand Parade" held by Nanfang Weekly Press of Nanfang City News, Nanfang Media Group.

The Company awarded "Outstanding Telecommunication Equipment Supplier" in the 5th Capital China Outstanding Enterprise Awards organized by Capital Magazine in Hong Kong.

▲ **76%**

HK$4,439,991,000

Revenue

In 2009, Comba continued to introduce innovative products, provide creative solutions, strengthen its relationships with the customers, persistently improve its management and enhance its internal control. The Group recorded a rapid growth in its annual results for 2009 and set a historic height.

Chairman's Statement

On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries ("Comba" or the "Group") for the year ended 31 December 2009 (the "Current Year").

The global economy has shown signs of gradual recovery in 2009. In particular, the PRC economy achieved a sustained and rapid growth which was driven by government investment. At the beginning of the year, three 3G licenses were issued in the PRC and the domestic telecommunication operators spend more resources on network construction and enhancement. Attributable to such favorable external environment as well as our internal efforts in introducing innovative products, providing creative solutions, strengthening our relationships with the customers, persistently improving our management and enhancing our internal control, the Group recorded a rapid growth in its annual results for 2009 and set a historic height.

In 2009, the Group's revenue increased substantially by 75.8% over the year ended 31 December 2008 (the "Prior Year") to HK$4,439,991,000. Profits attributable to the shareholders grew by 148.1% over the Prior Year to HK$564,500,000. The board of directors of the Company (the "Board") recommended distributing total dividends for the Current Year of HK12 cents per share. In addition, 1 new bonus ordinary share of HK10 cents will be issued for every 10 ordinary shares held.

Chairman and President | Fok Tung Ling

Chairman's Statement

During the Current Year, the Group continued to invest in research and development and has developed innovative products and solutions with higher value. Since such creative products and solutions were well received by our customers and were put into wide application, they have made a significant contribution to the improvement of our results and return.

3G licenses in the PRC were formally issued in 2009, which has urged the telecommunication operators to speed up the construction of their 3G networks and increase their project investments. With our quality products, professional services and speedy delivery, the Group was able to out-perform its competitors in the market with respect to the construction of 3G networks for telecommunication operators.

Against the backdrop that the pace of the construction of high speed railways in the PRC has accelerated, the Group is awarded several projects in 2009 to provide mobile communication network coverage along various key high speed railways in China and has risen as the leader in the provision of high speed railway coverage solutions due to our technical expertise, vast experience and excellent track record in providing network coverage along these specific railways. These railways included the whole high speed railway line from Wuhan to Guangzhou and the Beijing-Harbin, Shijiazhuang-Taiyuan, Xi'an-Baoji, Wenzhou-Fuzhou and Fuzhou-Xiamen high speed railway lines.

During the Current Year, Comba successfully acquired another landmark project, the network coverage project of the Expo 2010 Shanghai China, which is currently under construction.

With the continuous construction of domestic wireless cities, mobile operators in the PRC have enthusiastically engaged in the construction works of wireless local area network ("WLAN"). During the Current Year, the Group has successfully bid for the tenders to supply WLAN services to certain domestic mobile operators and achieved satisfactory results and secured business scale of bulk supply, it is expected that such business segment will record impressive growth in 2010.

During the year under review, all of the four major businesses of the Group, namely the wireless enhancement business, antennas and subsystems business, wireless access (DMS and WLAN) business and services business, recorded significant growth, among which the antennas and subsystems business experienced an extraordinary growth of 68.9% and emerged as the largest income source of the Group. In tandem with the increase in domestic and overseas investments in 2G and 3G networks, the wireless enhancement business also obtained satisfactory results. Income from the wireless access (DMS and WLAN) business increased by over two times, while the income from the services business grew over a time due to the extension in the coverage and scope of our services.

Impacted by the global economic downturn, the financing ability of various overseas telecommunication operators was weakened, and this made them more cautious in incurring capital expenditure on networks. They have therefore slowed down the progress of their network projects. Our international sales were thus affected to some extent. Following the initial rebound of the world economy, the Group has been awarded various key projects and has obtained several product and solution orders in the Asia-Pacific region, Middle America, Europe and the Middle East. A significant growth in the results for the next year is anticipated.

Building on our strengths in terms of products quality, cost-effectiveness and quick delivery, we have passed the stringent certifying tests of various world renowned core equipment manufacturers and have secured bulk orders accordingly.

Chairman's Statement

Looking forward, Comba will continue to focus on the global market. In the PRC, demand for wireless enhancement increased substantially as demand for telecommunication from the rural area has been on the rise, urban demand for network enhancement has expanded, the coverage of the networks have been enlarged and the requirement on network quality has become more stringent while the large-scale construction of 3G networks is rolling out in the PRC. In early 2010, the Chinese government has convened meetings during which it is resolved that the pace of convergence of the telecommunication network, broadcasting TV network and internet would be speeded up and the schedule of the integration of the three networks was confirmed. Such developments have provided more business opportunities to the Group and the Group would actively meet the market demand through continuously introducing innovative products and services, which meets market demand and enlarge and deepen our market penetration to maintain the momentum of our business growth.

In respect of the international market, the Group will aggressively exploit the emerging markets, such as India and Brazil, as well as the United States, which exhibit enormous potential. Meanwhile, the Group will further strengthen our cooperation with the core equipment manufacturers in order to consolidate our position in the global market.

To satisfy the continuous expansion of the world telecommunication industry following the economic recovery and the extension of 3G applications in the globe, phase III of our production base in Guangzhou, which has been formally put into operation at the end of 2009, has raised our production capacity by 150% and solidly ensured the delivery of quality products to our global customers. Capitalizing on our sound business foundation, leading position in the domestic market, capacity in products and solutions innovation and sales and technical services network that stretch across the globe, the future of Comba is bright and a satisfactory long-term development is guaranteed.

Last but not least, I would like to thank our directors and staff for their dedicated commitment and contributions, and the shareholders, customers, suppliers and business partners for their support. We will strive unremittingly for achieving better performance.

Fok Tung Ling
Chairman and President
Hong Kong
31 March 2010

▲ 148%

HK$564,500,000

Net Profit

▲ 66%

HK$5,725,107,000

Total Assets

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2009 (the "Current Year") was HK$4,439,991,000 (2008: HK$2,525,895,000), representing a sharp increase of 75.8% over the revenue for the year ended 31 December 2008 (the "Prior Year"). The increase was due to the strong growth of the revenue from PRC mobile operators.

The Group has benefited from the continuous enhancement of the existing 2G mobile networks and the 3G network build-outs since the restructuring of the telecommunications industry and the issuance of the 3G licenses in the PRC.

By customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") increased by 31.4% to HK$1,859,958,000 (2008: HK$1,415,344,000) and accounted for 41.9% of the Group's revenue in the Current Year, compared to 56.0% in the Prior Year.

Revenue generated from China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased significantly by 248.3% to HK$1,224,545,000 (2008: HK$351,555,000) and accounted for 27.6% of the Group's revenue in the Current Year, compared to 13.9% in the Prior Year.

Revenue generated from China Telecom Corporation and its subsidiaries ("China Telecom Group") increased significantly by 189.0% to HK$357,729,000 (2008: HK$123,767,000) and accounted for 8.1% of the Group's revenue in the Current Year, compared to 4.9% in the Prior Year.

Among which, revenue generated from the PRC 3G mobile networks increased significantly by 1,090.1% to HK$1,440,000,000 (2008: HK$121,000,000) and accounted for 32.4% of the Group's revenue in the Current Year, compared to 4.8% in the Prior Year.

Revenue generated from international customers and core equipment manufacturers also increased significantly by 32.8% to HK$642,536,000 (2008: HK$483,826,000) and accounted for 14.5% of the Group's revenue in the Current Year, compared to 19.2% in the Prior Year. The increase in revenue was mainly due to the increases in global demand and market share of wireless access equipment.

By businesses

Revenue generated from wireless enhancement business in the Current Year increased by 37.7% to HK$1,377,802,000 (2008: HK$1,000,603,000) and accounted for 31.0% of the Group's revenue, compared to 39.6% in the Prior Year.

Revenue generated from antennas and subsystems business in the Current Year increased significantly by 68.9% to HK$1,424,875,000 (2008: HK$843,385,000) and accounted for 32.1% of the Group's revenue, compared to 33.4% in the Prior Year. The increase in revenue was mainly due to the increases in base-station antennas for the PRC 3G mobile network build-outs.

Revenue generated from the wireless access (DMS and WLAN) business in the Current Year increased also significantly 252.3% to HK$466,050,000 (2008: HK$132,296,000) and accounted for 10.5% of the Group's revenue, compared to 5.2% in the Prior Year.

Revenue from services, including consultation, commissioning, network optimization, project management, and after-sales maintenance services in the Current Year, increased significantly by 113.1% to HK$1,171,264,000 (2008: HK$549,611,000) and accounted for 26.4% of the Group's revenue, compared to 21.8% in the Prior Year. The increase in revenue from services was from installation services, network enhancement services, network upgrade, and after-sales maintenance services on more equipment and larger coverage area.

Management Discussion and Analysis

Gross profit

Despite of the continuous pressure on average selling prices for the traditional products, the Group's gross profit margin was kept stable to 37.9% in the Current Year, compared with 37.5% in the Prior Year. During the Current Year, the gross profit increased by 77.8% to HK$1,681,923,000 (2008: HK$946,034,000), compared with the Prior Year. The Group has continuously launched new products and solutions into the markets in order to maintain the stable gross profit margin.

The Group has implemented various cost control measures including streamlining the manufacturing process, optimizing the product design through advanced research and development technology, improving the logistic management, and negotiating with suppliers for better pricing and payment terms. The Group has also continuously expanded its market coverage and broadened its revenue sources to achieve economies of scale. The Group has provided installation, network enhancement and after-sales maintenance services to customers in order to achieve higher product sales. In order to maintain a stable gross profit margin, the Group will continue to focus on developing advanced products with high customers' values.

Research and development costs

During the Current Year, the research and development ("R&D") costs increased by 26.3% to HK$167,024,000 (2008: HK$132,253,000), representing 3.8% (2008: 5.2%) of the Group's revenue. As a consequence of increasing revenue and future business growth, the increase in R&D costs was mainly due to: 1. expanding our product portfolio for the global markets and the continuous development of new 3G products to capture the huge global, especially the PRC, 3G network build-out business opportunities; 2. developing new products for the next generation's mobile networks; 3. streamlining the manufacturing process for higher efficiency.

Telecommunications industry relies heavily on R&D on new products and advanced technology. R&D is one of the most important continuous success factors of the Group. To maintain its leadership in the industry, the Group has to maintain an advanced R&D team at the current level. With its continuous investment in R&D, the Group has achieved significant accomplishment in intellectual property rights, having applied for over 530 patents as at the end of the Current Year.

Selling and distribution costs

During the Current Year, selling and distribution costs increased by 26.0% to HK$234,153,000 (2008: HK$185,811,000), representing 5.3% (2008: 7.4%) of the Group's revenue. The increase in selling and distribution costs was mainly due to the increase in the sales staff salaries and commission, entertainment, and travelling expenses as a consequence of increasing the Group's consolidated revenue.

Management Discussion and Analysis

Administrative expenses

During the Current Year, administrative expenses increased by 47.0% to HK$544,051,000 (2008: HK$370,112,000), representing 12.3% (2008: 14.7%) of the Group's revenue. The increase in administrative expenses was mainly due to increases in administration staff salaries, allowances and pension scheme contributions, rental expenses, and motor car expenses, as a consequence of enlarging the support teams for the PRC and international businesses.

Finance costs

During the Current Year, finance costs decreased slightly by 5.1% to HK$12,722,000 (2008: HK$13,405,000), representing 0.3% (2008: 0.5%) of the Group's revenue. The decrease in finance costs was mainly due to decreases in bank borrowings in the PRC and interest rate of bank borrowings in Hong Kong.

The management is always prudent on managing the credit risk and improving the cash flow in order to reduce the bank borrowing level. To cope with the growth of the business, the management closely monitors the latest development of the financing market and arranges the most appropriate financing for the Group. The management also utilizes the advantages of interest and foreign exchange rates differentiation among different countries in order to minimize the finance costs.

During the current ever-changing economic situation, the management monitors extremely closely on the credit risk of individual customers and may take corrective actions to ensure the recoverability of receivables.

Tax

During the Current Year, taxation charges increased significantly by 417.6% to HK$142,291,000 (2008: HK$27,493,000), representing 3.2% (2008: 1.1%) of the Group's revenue. During the Current Year, effective tax rate was 18.9% (2008: 10.6%). The substantial increase in taxation charge was the net result of 1. profits tax on assessable profits increased to HK$164,043,000 (2008: HK$53,820,000), which was mainly due to significant increase in profit before taxation; and 2. deferred tax credit decreased to HK$21,752,000 (2008: HK$26,327,000) because of a reversal of deferred tax credit arising from a decrease in profits tax rate of the subsidiary in the PRC. The management has taken and will continue to take certain tax planning measures to minimize the taxation charges.

Net profit

During the Current Year, profit attributable to shareholders ("Net Profit") increased significantly by 148.1% to HK$564,500,000 (2008: HK$227,512,000), representing 12.7% (2008: 9.0%) of the Group's revenue. The increase in Net Profit was mainly due to the increase of the Group's revenue, steady gross profit margin, and scale benefits while partly offset by the increase in taxation charges.

Dividend and bonus share

The Group has put much emphasis on the return and interests of shareholders, in particular the interests of minority shareholders. To balance the shareholders' return and the Group's future long-term development, the Board proposes dividends for 2009 of HK12 cents per share, in which HK8 cents and HK4 cents will be distributed by final dividend and special dividend respectively. Together with the interim dividend of HK6 cents (2008 interim: nil) per share paid on 19 October 2009, the total dividends for the whole year is HK18 cents (2008: HK7 cents) per share, representing a substantial increase of 157.1%, and the total payout ratio, on the basis of basic EPS, is 33.3% (2008: 26.2%, based on the number of shares issued as at 31 December 2008), in which the payout ratios for final dividend and special dividend is 14.8% (2008: 26.2%, based on the number of shares issued as at 31 December 2008) and 7.4% (2008: Nil) respectively, and for interim dividend is 11.1% (2008: Nil).

During the Current Year, the Group recorded net profit and net cash at historic level. The Board would like to take this opportunity to share the achievement over the last year with shareholders and declares special dividend for the first time. In future, the Board will, whenever the business allows, maximize the payout ratio to reward shareholders for their support to the Group.

Management Discussion and Analysis

In addition to the distribution of dividend, the Board also proposes to distribute 1 bonus share for every 10 existing shares held by shareholders whose name appear on the Company's share register on 24 May 2010. The relevant resolutions will be proposed at the annual general meeting held on 24 May 2010 and, if duly passed by shareholders, the dividend warrants, together with the share certificates for the bonus shares will be dispatched on 1 June 2010.

PROSPECT

Following the stimulus measures adopted by various governments in rescuing the economy, the global economy resumed to stability. However, the management considers that uncertainties still prevail in the global economy with the exit of various central governments from the market and the increase of interest rate.

2010 is a crucial year for the Group and is a year in which China's economy will grow steadily, the telecommunications network will be further enhanced and the number of telecommunications users will continue to grow. With the continually completion of the telecommunications network construction, the telecommunications industry of the PRC has entered into an era where rapid network enhancement is expected. Besides, the requirement for network enhancement of 3G network is higher than 2G network. Leveraging on the Group's leading product technologies and good service network, the management is highly confident that the Group will achieve growth in the business in 2010.

In addition, the Group is committed to develop innovative products and service network. The management will continue to expand the three existing product lines and commit further resources for production innovation with a view to bringing novel concepts to communication products in the coming year and bringing new hopes to the Group's development.

The Group has successfully grown its business to become a global equipment supplier including markets such as the Americas, EMEA and within Asia Pacific. Similarly, relationships with the international core equipment vendors continue to deepen with the Group gaining international recognition and approval status from those vendors corresponding to the supply of products in a number of global projects including the PRC market. In addition, the portfolio of offerings to these vendors continues to expand.

The Group made several achievements in the international market and further diversified its customer base, thereby gaining a wider recognition for its products and solutions in the international market. In addition, the Group's business in India is expected to achieve significant growth with the anticipated issuance of 3G licenses in the country.

Management Discussion and Analysis

Internationally, the outlook is positive with indications that the global economy is beginning to recover along with the telecommunications industry. The pent-up expenditure on wireless infrastructure that began to be realized in late 2009 is expected to continue in 2010 and beyond. In particular, data demands on network and LTE expenditure in the developed markets will continue to gather pace and the Group is well positioned to address these demands with focused R&D programs and newly released solutions. Emerging markets will power overall industry growth, with rural connectivity and 3G network deployments being hotspots. The Group is optimistic that it has the experience and solutions to address these opportunities advantageously.

Wireless Enhancement

The management expects that the demand for wireless enhancement solution will increase significantly in 2010 as driven by the enormous opportunities from 3G network enhancement and the growth in 2G network enhancement. The Group has become one of the few major communication equipment and service providers for various domestic milestones projects, such as Expo 2010 Shanghai China and Wuhan-Guangzhou High Speed Rail Line.

Against the backdrop of the recent publication of the expected number of 3G users in the PRC, the Group has endeavored to offer more cost-efficient solutions to all mobile network operators and has acquired significant orders for network enhancement. The Group will continue to undertake research and development on the new generation of wireless enhancement products, targeting to bring cost efficiency to customers through our leading technologies and to achieve win-win situation.

At present, the number of mobile phone users in China has exceeded 740 million and more than 99% of which are 2G users. Besides, the network coverage in rural area is lower than in urban area in China. The Group will be definitely benefited under the national policy of developing rural areas.

On a global scale, 2G remains dominant, whilst 3G user numbers is growing rapidly. With the largest number of 2G subscribers in the world, the demand for wireless enhancement solutions continues to grow unabated in the PRC with operations striving to provide ubiquitous indoor and outdoor coverage in urban areas. Similarly, wireless enhancement plays a key role in network extensions to rural areas — one of the fastest growing subscriber bases in the PRC and indeed in the other megamarket, India.

For 3G activities, the Group is engaged in network upgrades and enhancements. These wireless enhancement activities include long-term coverage extension and capacity optimization projects that often spans multiple years. Given the issuance of 3G licenses in the PRC in 2009 and the imminent 3G licensing in India, the Group has experienced and anticipates strong demand for its 3G solutions.

The Group is well prepared for the expected surge in demand for its 2G and 3G wireless enhancement solutions and has developed and deployed a range of solutions for 2G and 3G (TD-SCDMA, WCDMA, CDMA2000) such as microwave repeater solutions, and digital repeater solutions that resolves wireless coverage issues for high-speed railways and large areas for example. In addition, approved supplier status for certain repeater models at several multinational operators will help the impetus for adoption of Comba's wireless solutions.

Antennas & Subsystems

With the roll-out of China's 3G network, antennas and subsystems segment has, for the first time, become the one which earns the highest revenue for the year. The Group has become one of the world's largest antennas producers. During the Current Year, the Group sold over 330,000 pieces of BTS antennas and over 2,000,000 pieces of indoor antennas.

Management Discussion and Analysis

In 2010, notwithstanding the scale of coverage of the domestic 3G network achieved, the management expects that the demand over network enhancement and indoor coverage will increase significantly. In addition, with the recent satisfactory sales performance of the Group's subsystem, the management expects that the sales revenue of the antennas and subsystems segment will continue to grow.

Internationally the demand for antennas and subsystems remains strong, driven by 2G and 3G network build-outs and enhancements in the emerging markets as well as the nascent LTE activities in the developed markets. As such, the Group continues to invest in ongoing, focused R&D for this segment. Comba has developed a number of innovative antenna solutions in order to meet the future demand.

Wireless Access (DMS and WLAN)

In 2009, wireless access (DMS and WLAN) segment achieved satisfactory growth. Supported by the technologies developed by the Group in overseas, the Group has become the largest supplier of an international BTS equipment manufacturer with respect to one of its wireless transmission products.

In 2010, the Group will further its effort to expand the client base and the Group expects that more customers will be acquired and higher revenue will be generated in near future.

Services

Services has become one of the major business segments of the Group. After years of providing overall solutions and engineering services, the Group has a strong services team in wireless enhancement sector to cover the whole PRC. The Group provides different kinds of service, such as network design and optimization, 3G mobile network modification and upgrade, system installation and after-sales maintenance, etc.

The Group is confident that the services and equipment sales can help each other boost the revenue and achieve a multiple effect in the future. In addition, the Group believes that services will continue to be an important business segment globally and will actively look for potential business opportunities around the world.

Conclusion

The Group experienced rapid growth and has gradually diversified its business and products upon the completion of the reorganization of the telecommunication industry in the PRC in the fourth quarter of 2008 and the issuance of three 3G mobile licenses to three mobile operators by the Ministry of Industry and Information Technology of the PRC on 7 January 2009. The management will endeavor to control the risks of operations and enlarge the customers base, increase market and product portfolio.

Management Discussion and Analysis

The success of the Group relies on its innovative technology and solution. The Group will devote more resources on technology development with the target of "further optimizing 2G network, seizing the opportunities from 3G and getting prepared for the LTE". Meanwhile, the Group has also prepared to launch a series of innovative mobile communication equipment which is expected by the management to bring fruitful return to the Group.

The Group will make full use of the domestic resources to consolidate the businesses in the PRC market while further acquiring market shares. On top of the domestic market, the Group will commit further resources to overseas markets, particularly the emerging markets and the potential target markets. The management is confident that the Group will become the world's largest network enhancement supplier in near future.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2009, the Group had net current assets of HK$2,337,037,000. Current assets comprised inventories of HK$1,601,992,000, trade receivables of HK$2,112,331,000, notes receivable of HK$34,801,000, prepayments, deposits and other receivables of HK$204,208,000, restricted bank deposits of HK$15,391,000 and cash and cash equivalents of HK$1,145,957,000. Current liabilities comprised trade and bills payables of HK$1,776,021,000, other payables and accruals of HK$711,904,000, interest-bearing bank borrowings of HK$90,835,000, tax payable of HK$159,350,000 and provision for product warranties of HK$39,533,000.

The average receivable turnover for the Current Year was 139 days compared to 171 days for the Prior Year. 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, except for those retention money 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 average payable turnover for the Current Year was 179 days compared to 170 days for the Prior Year. The average inventory turnover for the Current Year was 176 days compared to 209 days for the Prior Year.

As at 31 December 2009, 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 HK$ and US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

During the Current Year, in addition to those short-term interest-bearing facilities, the Group entered into a three-year term loan facility agreement, amounted to US$100M, (the "Facility Agreement") with a group of financial institutions. The facility was granted for the purpose of financing the Group's capital expenditure, permanent working capital, 3G corporate development and expansion into the international market. Under the Facility Agreement, there is a specific performance obligation that Mr. Fok Tung Ling and Mr. Zhang Yue Jun, the controlling shareholders of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 40% of the shares (of each class) of and equity interests in the Company free from any security. As at 31 December 2009, the Group utilized the facility of US$56,180,000.

Management Discussion and Analysis

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 gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 7.7% as at 31 December 2009 (31 December 2008: 1.5%).

CHARGE ON ASSETS

As at 31 December 2009, there was no charge on the Group's assets (31 December 2008: Nil).

CONTINGENT LIABILITIES

As at 31 December 2009, the Group had contingent liabilities of HK$31,878,000 (31 December 2008: HK$21,678,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group had approximately 8,000 staff. The total staff costs for the Current Year were HK$683,040,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are granted to eligible staff based on the performance of each such employee as well as the Group. Mandatory provident fund, or staff pension schemes are also provided to relevant staff in Hong Kong, the PRC or elsewhere in accordance with relevant legal requirements. The Group also provides training to staff to improve their skills and develop their respective expertise.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Fok Tung Ling (霍東齡), aged 53, chairman of the Board and president. Mr. Fok is primarily responsible for the Group's overall strategic 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 in 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 28 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. Fok Tung Ling

Directors and Senior Management

Mr. Zhang Yue Jun (張躍軍), aged 51, vice chairman and executive vice president, R&D. Mr. Zhang is responsible for the overall research and development of new technology and products, 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 and was mainly responsible for wireless telecommunications projects. Mr. Zhang has over 27 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. Tong Chak Wai, Wilson (唐澤偉), aged 38, executive director and group financial controller. Mr. Tong is also the authorized representative and company secretary of the Company. Mr. Tong is mainly responsible for the overall financial management, accounting, investor relations and company secretarial duties of the Group. Mr. Tong holds a master of business administration degree from University of San Francisco, a master degree in economics from Murray State University, and a bachelor degree in accounting from University of Southern California. Mr. Tong is a Fellow Certified Practising Accountant of CPA Australia, a member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate of The Institute of Chartered Secretaries and Administrators and an associate of the Hong Kong Institute of Company Secretaries. Mr. Tong has over 15 years of experience in finance and legal work in the listed and multinational companies. He joined the Group in 2008.

Mr. Wu Jiang Cheng (伍江成), aged 50, executive director and senior vice president, PRC marketing and 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 the implementation 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 been a lecturer of engineering department for over 10 years and in the last two years of which he taught at Guangzhou University. Mr. Wu also has over 17 years of experience in communications and marketing and he joined the Group in 1997.

Mr. Zhang Yue Jun | Mr. Tong Chak Wai, Wilson | Mr. Wu Jiang Cheng

Directors and Senior Management

Mr. Yan Ji Ci (嚴紀慈), aged 55, executive director and senior vice president, production operations. Mr. Yan is responsible for the operations of the supply chain and the procurement management of the Group as well as the production 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 34 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 44, 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 23 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 37, 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, Inc. 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 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 14 years of experience in the telecom industry. He joined the Group in 2004.

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

Directors and Senior Management

Independent Non-executive Directors

Mr. Yao Yan (姚彥), aged 72, 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 51, independent non-executive director. He has over 25 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 Binhai Investment Company Limited, a company listed on the Growth Enterprise Market of The Stock Exchange and eight other companies listed on the main board of The Stock Exchange namely Carry Wealth Holdings Limited, Greenfield Chemical Holdings Limited, TCL Communication Technology Holdings Limited, COL Capital Limited, Foxconn International Holdings Limited, Proview International Holdings Limited, Samson Holding Ltd. and Embry Holdings Limited. Mr. Lau had been an independent non-executive director of Forefront International Holdings Limited until his resignation on 18 April 2007. Mr. Lau joined the Group in 2003.

Mr. Liu Cai (劉彩), aged 70, 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 policy formulation, reform planning, laws and regulations drafting for the telecommunications industry of the PRC. Before joining the Ministries 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 has also been an independent non-executive director of China United Network Communications Limited since November 2009, with its A shares listed on the Shanghai Stock Exchange. Mr. Liu joined the Group in 2003.

Mr. Yao Yan **Mr. Lau Siu Ki, Kevin** **Mr. Liu Cai**

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Zhang Yuan Jian (張遠見), aged 52, vice president of the Group. Mr. Zhang is in charge of the technical research and product development of the Group's research and development center. He graduated from the University of Science and Technology of China (中國科技大學) and obtained the bachelor degree of fast electronics in 1981 and subsequently graduated from the Nanjing Institute of Electronic Technology (南京電子技術研究所) with a master degree in microwave technology in 1984. Mr. Zhang has over 26 years of experience in the technical research on wireless communications industry, product development and relevant management. He joined the Group in 2004.

Mr. Zhang Jin Yu, Charles (張金玉), aged 46, 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 19 years of experience in accounting and financial management and joined the Group in 2004.

Mr. Chen Sui Yang (陳遂陽), aged 46, vice president and general manager of the wireless enhancement products division of the Group. Mr. Chen is mainly responsible for the products lines, technical support and management of the research and development of the wireless enhancement business of the Group. 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 24 years of experience in technology research of wireless communications. He joined the Group in 1998.

Mr. Bu Bin Long (卜斌龍), aged 47, 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 (西安電子科技大學)) and obtained a master's degree in electronic magnetic field and microwave technology. Mr. Bu has over 24 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Directors and Senior Management

Mr. Augustin Ping Chang (張平), age 47, general manager of the Group's international branch in North America. Mr. Chang is responsible for the business development & R&D activities for high power amplifier in US & Canada. Prior joining the Group, Mr. Chang was director of engineering at REMEC Inc. He also held various engineering management positions at Spectrian Inc. & Watkins-Johnson Company. Mr. Chang holds a Master of Science degree in electrical engineering from University of Illinois at Urbana-Champaign and a Bachelor of Science degree in electrical engineering from Carnegie-Mellon University. Mr. Chang has more than 24 years of experience in RF/microwave amplifier development, from ultra-broadband MMIC amplifier to high power linearized power amplifier for cellular base station. Mr. Chang has co-authored numerous papers in the fields of GaAs FET amplifiers, and holds a patent on high linearity multi-carrier RF amplifier. He joined the Group in 2005.

Mr. Di Ying Jie (邸英傑), aged 48, 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 (西安電子科技大學), majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in design 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. Fredrik Dyfverman, aged 39, general manager of Europe, the Middle East and Africa region 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 12 years of experience in the wireless industry. He joined the Group in 2004.

Mr. Feng Bo (馮波), aged 55, director of the Group's Tianjin branch, the PRC. 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 29 years of experience in research, marketing and management of communications products. He joined the Group in 2002.

Mr. Feng Yong (馮勇), aged 38, deputy general manager of the Group's sales and marketing department and director of the Group's East China 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 12 years of experience in marketing and management. He joined the Group in 2000.

Directors and Senior Management

Mr. Rajiv Girotra, aged 37, managing director of the Group's international branch in India. Mr. Rajiv Girotra holds an executive MBA in International Sales from Indian Institute of Management (IIM-C). Before joining the Group he has done stints with ZTE, Subex and has more than total of 15 years of telecom gear equipment sales experience in India. He joined the group in 2005.

Mr. Jiang Hong Ming (江洪明), aged 36, deputy director of the Group's human resource. Mr. Jiang is responsible for the development and operation of the human resources of the Group, remunerations and benefits, employees' relations and performance management. He graduated from the Renmin University of China (中國人民大學), majoring human resources and labour economics, and has received a master degree in labour economics and is recognized as a senior economist. Mr. Jiang has over 13 years of experience in the management of human resources, corporate operation and management. He joined the Group in 2003.

Ms. Li Yu Wen (李宇雯), aged 39, 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 17 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.

Mr. Liu Yi Bo (劉義波), aged 41, general manager of the wireless solutions division of the Group. Mr. Liu is responsible for the management of the application of the Group's products and related solutions. 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 18 years of experience in engineering and project management. He joined the Group in 1997.

Mr. Meng Cheng Zhi (蒙承志), aged 41, general manager of the Group's Guangdong branch, the PRC. 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 17 years of experience in engineering and management. He joined the Group in 1997.

Mr. Ong Sing Jye (王新杰), aged 41, 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 16 years of experience in the telecommunications industry and joined the Group in 2002.

Directors and Senior Management

Mr. Pan Shuan Long (潘栓龍), aged 46, is the deputy director of the research and development department of the Group and the director of PA department (domestic). Mr. Pan is responsible for the research and development and technology management of the Power Amplifiers and related products with respect to active products. Mr. Pan obtained his bachelor's degree in automated controls from Lanzhou Railway University (currently known as Lanzhou Jiaotong University) in 1985. Mr. Pan has 24 years of experience in technology research and development in the mobile communications sector. Mr. Pan joined the Group in 2002.

Mr. Pan Tian (潘天), aged 34, 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 10 years of experience in engineering, marketing and management. He joined the Group in 2000.

Mr. Qiao Hong Feng (喬宏楓), aged 48, director of the Group's North China 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 19 years of experience in marketing and management. He joined the Group in 1999.

Mr. Shen Wen (沈文), aged 44, director of the Group's Southwest China 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 19 years of experience in communications engineering, marketing and management. He joined the Group in 1999.

Mr. Shen Wen Bo (沈文波), aged 46, deputy general manager of the Group's sales and marketing department and director of the Group's Northwest China 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, Gansu provinces, 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 24 years of experience in marketing and management. He joined the Group in 1999.

Mr. Su Hua Hong (蘇華鴻), aged 69, 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 Center 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 44 years of experience in telecommunications. He joined the Group in 2001.

Directors and Senior Management

Mr. Sun Ru Shi (孫孺石), aged 70, senior engineer, technical director of the Group's East China 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 44 years of experience in communications. He joined the Group in 2003.

Mr. Wang Wei (王偉), aged 46, deputy director of the Group's research & development center and the general manager of the Group's R&D center 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 24 years of experience in research & development in RF technology of digital microwave systems. He joined the Group in 2005.

Mr. Johan Patrik Westfalk, age 38, general manager of the Group's Caribbean & Latin America branch with head quarters in São Paulo, Brazil. Mr. Westfalk, is responsible for all operations throughout the Latin American countries as well as the Caribbean Islands. He holds a Master of Science degree in Engineering Physics from Chalmers University of Technology in Gothenburg, Sweden, specializing in Electromagnetic Fields and Microwave Antenna Design and has also completed finance and accounting education at the Business School of São Paulo, Brazil. Mr. Westfalk has over 14 years of experience in the Telecommunication Industry and over 10 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Ms. Wong Siu Fan (黃少芬), aged 38, deputy financial controller, group finance. Ms. Wong is responsible for the group financial reporting and assists in financial management and company secretarial duties of the Group. She holds degree of master of science in financial management from University of London. Ms. Wong is a Hong Kong Certified Public Accountant, an associate of the Institute of Chartered Secretaries and Administrators and an associate of the Hong Kong Institute of Company Secretaries. Ms. Wong has over 15 years of experience in auditing and accounting. She joined the Group in 2004.

Mr. Zhang Shan Yu (張山宇), aged 52, deputy general manager of the Group's sales and marketing department and director of the Group's Northeast China 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 27 years of experience in engineering, marketing and management. He joined the Group in 1997.

Mr. Zhu Qin (朱勤), aged 52, 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 27 years of experience in development and technical management of microwave communication products. He joined the Group in 2004.

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.

During the Current Year, the Board reviewed daily governance of the Group in accordance with the code provisions (the "Code Provision(s)") of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered that, from 1 January 2009 to the date of this annual report, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has complied with the Code Provisions, 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. Mr. Fok Tung Ling, chairman of the board of directors of the Company (the "Board") is currently holding the office of chief executive officer during the Current Year. Accordingly, the Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of 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 Current Year and up to the date of this annual report.

BOARD OF DIRECTORS

As at the date of this annual 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 Current Year with attendance record as follows:

Attendance at Board meeting	**Number of meetings attended/ Total number of meetings held**
Executive Directors:	
Mr. Fok Tung Ling *(Chairman & President)*	7/7
Mr. Zhang Yue Jun	7/7
Mr. Tong Chak Wai, Wilson	7/7
Mr. Wu Jiang Cheng	7/7
Mr. Yan Ji Ci	7/7
Mr. Zheng Guo Bao	7/7
Mr. Yeung Pui Sang, Simon	7/7
Independent Non-executive Directors:	
Mr. Yao Yan	7/7
Mr. Lau Siu Ki, Kevin	7/7
Mr. Liu Cai	7/7

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 organization 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

Corporate Governance Report

internal control procedures; and ensuring 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 annual 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 preparing the Company's financial statements and ensuring the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes, budget and 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 and review the terms of service contracts of Directors. 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 Current 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, management experience of a candidate which makes him/herself suitable for the role as a director.

There was no appointment or removal of director in the Current Year. Accordingly, the Board did not hold any meeting to address matters relating to nomination of directors during the Current 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 Current Year were reviewed by the Audit Committee, who was of the opinion that such statements complied with applicable accounting standards and legal requirements, and that adequate disclosures had been made. During the Current Year, the Audit Committee also reviewed the interim and annual reports, and internal control system of the Group.

Corporate Governance Report

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

Attendance at audit committee meeting	Number of meetings attended/ Total number of meetings held
Mr. Yao Yan	2/2
Mr. Lau Siu Ki, Kevin	2/2
Mr. Liu Cai	2/2

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 and 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 disseminated promptly.

During the Current Year, the Group's senior management attended over 177 investor meetings, including participation in 8 investor conferences, and 28 non-deal roadshows, 18 plant visits were arranged. 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 Current Year, 17 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 Internal Audit Department monitors the internal control procedures and systems of the Group and reports its findings and recommendations to management, and the Audit Committee.

The Internal Audit Department carried out audit in areas identified as of high or medium significance during the Current Year. This included sales and receivables, and inventories and costing. Recommendations were made to the relevant business functions and improvements have been made.

The Audit Committee reviewed the reports submitted by the Internal Audit Department and reported semi-annually to the Board on such reviews.

In respect of the Current year, the Board reviewed the effectiveness of the internal control system within the Group 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 Current Year and the corresponding audit fees estimation. Such recommendation relating to appointment of Ernst & Young is agreed and accepted by the Board. During the Current Year, the fees paid to the auditors for audit services and non-audit services (mainly tax review and interim financial statements review) amounted to HK$2,596,000 and HK$1,291,000, respectively. The auditors confirm to the Board that they acknowledge their responsibilities of expressing an opinion on the annual financial statements for the Current Year.

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 2009.

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 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 122.

An interim dividend of HK6 cents per ordinary share was paid on 19 October 2009 (2008: Nil). The directors recommend the payment of a final dividend of HK8 cents per ordinary share (2008: HK7 cents per ordinary share) and a special dividend of HK4 cents per ordinary share (2008: Nil) in respect of the year to shareholders on the register of members on 24 May 2010. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of statement of financial position.

SUMMARY FINANCIAL INFORMATION

A summary of the results and 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 as appropriate, is set out on pages 123 to 124. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

As a reward to the continual support of the shareholders, the Company has allotted and issued 85,577,300 and 96,284,260 new shares by way of bonus issues to the existing shareholders on 2 June 2009 and 9 October 2009 respectively.

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, respectively.

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 on the Stock Exchange or otherwise 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 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$504,903,000 of which HK$85,238,000 and HK$42,619,000 have been proposed as a final dividend and a special dividend for the year, respectively. In addition, the Company's share premium account, in the amount of HK$455,669,000, may be distributed, provided that immediately following the date on which the distribution or dividends proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 93.5% of the total sales for the year and sales to the largest customer included therein accounted for approximately 41.9% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge, information and belief 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. Tong Chak Wai, Wilson ("Mr. Tong")
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 articles 87(1) and 87(2) of the Company's articles of association, Mr. Fok, Mr. Yao, Mr. Lau and Mr. Liu will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All the independent non-executive directors are appointed for a term of one year.

The Company has received annual confirmations of independence from Mr. Yao, Mr. Lau, and Mr. Liu as at the date of this report and considers them to be independent as each of them fulfils the requirement as set out in Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 21 to 29 of the annual report.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors (except Mr. Tong, 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 by giving not less than six months' written notice. As these contracts were entered into on or before 31 January 2004, they are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Mr. Tong has entered into a service contract with the Company for an initial term of three years which commenced on 1 December 2008 and will continue thereafter until terminated by not less than six month's notice in writing served by either party on the other. Each of Mr. Zheng and Mr. Yeung has entered into a service contract with the Company for an initial term of 18 months which commenced on 30 March 2008 and 7 April 2005 respectively 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 2009, 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:

		No. of ordinary shares held, capacity and nature of interest			
Name of director	**Notes**	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Fok	(a)	12,966,360	414,099,842	427,066,202	40.08
Mr. Zhang	(b)	–	120,983,060	120,983,060	11.35
Mr. Tong		1,880,000	–	1,880,000	0.18
Mr. Wu		5,106,200	–	5,106,200	0.48
Mr. Yan		4,307,600	–	4,307,600	0.40
Mr. Zheng		2,553,100	–	2,553,100	0.24
Mr. Yeung		3,478,200	–	3,478,200	0.33
		30,291,460	535,082,902	565,374,362	53.06

Report of the Directors

Long positions in share options of the Company:

Name of director	No. of options directly beneficially owned
Mr. Tong	3,630,000
Mr. Wu	4,235,000
Mr. Yan	4,103,000
Mr. Zheng	1,210,000
Mr. Yeung	5,808,000
	18,986,000

Notes:

(a) 413,134,262 shares and 965,580 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 414,099,842 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 120,983,060 shares owned by Wise Logic.

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 2009, none of the directors had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' 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.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save for the Loan Agreements, the ODU Sales Agreements and the Diplexer Purchase Agreement in which Mr. Zhang has interest (as disclosed in the section "Connected Transactions" below), 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 or the controlling shareholder 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 spouses 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 2009, 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	413,134,262	38.77
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	427,066,202	40.08
Wise Logic		Beneficial owner	120,983,060	11.35
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	120,983,060	11.35

Notes:

(a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 427,066,202 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 120,983,060 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) 413,134,262 shares between Prime Choice and Mdm. Chen; and

(ii) 120,983,060 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2009, 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.

Report of the Directors

CONNECTED TRANSACTIONS

In the year under review, 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 transactions

On 25 June 2008 and 1 August 2008, the Lender, Cascade Technology Limited (a wholly-owned indirect subsidiary of the Company) and the Borrower, WaveLab Holdings Limited ("WaveLab Holdings"), entered into two loan agreements ("the Loan Agreements") pursuant to which the Lender agreed to lend a principal amount of US$3,000,000 (equivalent to approximately HK$23,400,000) ("the First Loan") and US$3,000,000 (equivalent to approximately HK$23,400,000) ("the Second Loan") (collectively referred to as the "Loans") to the Borrower at the rate of LIBOR at the date of drawing plus 1 per cent per annum. The interest period of the Loans is either 6 months or 12 months at the selection of the Borrower. The drawing availability period has been extended to 31 December 2010 upon mutual agreement between the Lender and the Borrower. The Lender may, at any time upon giving notice in writing, demand repayment of the Loans in full or in part up to the outstanding amount of the Loans 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 Loans are applied by the Borrower as working capital of the Borrower and its subsidiaries. The Borrower is a non wholly-owned indirect 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 indirect subsidiary of the Company and an associate of Mr. Zheng) is a connected person of the Company under the Listing Rules.

Details of the connected transactions as mentioned above have been included in the Company's previous annual report in compliance with the Listing Rules.

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

Continuing connected transactions

An agreement dated 21 June 2007 and an extension agreement dated 1 August 2008 were entered into between the Group and WaveLab Telecom Equipment (Guangzhou) Limited ("WaveLab Guangzhou") (collectively referred to as "ODU Sales Agreements") relating to (a) the sale of the digital microwave outdoor units and other products used in connection with microwave transmission (the "ODU") by WaveLab Guangzhou to the Group and (b) WaveLab Guangzhou's grant to the Group of the sole and exclusive right to sell the ODU products of WaveLab Guangzhou in the Mainland China, Hong Kong and Macau from 1 March 2007 extended to 31 December 2010. The price and quantities of the ODU products under the ODU Sales Agreements 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 ODU acquired with the products of the Group.

On 1 August 2008, the Group entered into another agreement (the "Diplexer Purchase Agreement") with WaveLab Holdings relating to the sale of diplexer (one of the essential components for the manufacture of ODU) and such other products used in connection with microwave transmission (the "Diplexer") by the Group to WaveLab Holdings and its subsidiaries ending on 31 December 2010. The price and quantities of the Diplexer products under the Diplexer Purchase Agreement is to be agreed between WaveLab Holdings and the Group in writing from time to time.

Report of the Directors

By virtue of WaveLab Guangzhou being a wholly-owned indirect subsidiary of WaveLab Holdings, a 55% indirect subsidiary of the Company, 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 ODU Sales Agreements and the Diplexer Purchase Agreement constitute non-exempt continuing connected transactions falling under Rule 14A.35 of the Listing Rules.

Details of the continuing connected transactions set out above have been included in the Company's previous annual report in compliance with the Listing Rules.

The directors (including the independent non-executive directors) of the Company have reviewed the transactions under the ODU Sales Agreements and the Diplexer Purchase Agreement (collectively referred to as 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 ODU Sales Agreements and the Diplexer Purchase 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 ODU Transactions and the Diplexer Transactions in the financial year ended 31 December 2009 did not exceed HK$532 million and HK$31.2 million respectively, being the cap amounts set for the year ended 31 December 2009 (the "Cap Amounts").

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

(i) the Transactions were approved by the board of directors of the Company on 1 August 2008;

(ii) the Transactions were conducted in accordance with the pricing policies of the Group;

(iii) the Transactions were conducted in accordance with the terms of the ODU Sales Agreements, and the Diplexer Purchase Agreement; and

(iv) each of the aggregate value of the Transactions in respect of the year ended 31 December 2009 did not exceed the Cap Amounts respectively.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Comba Telecom Systems Limited, an indirect subsidiary of the Company, entered into a United States dollars term loan facility agreement dated 3 July 2009 and an accession memorandum dated 2 September 2009, which contain covenants requiring performance obligations of the controlling shareholders of the Company. Details of loan agreements with covenants relating to specific performance of the controlling shareholders are set out in note 26 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best 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 OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman and President
Hong Kong
31 March 2010

Independent Auditors' Report

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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 43 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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.

Independent Auditors' Report

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 2009 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
Hong Kong
31 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**4,439,991**	2,525,895
Cost of sales		**(2,758,068)**	(1,579,861)
Gross profit		**1,681,923**	946,034
Other income and gains	5	**38,807**	19,083
Research and development costs		**(167,024)**	(132,253)
Selling and distribution costs		**(234,153)**	(185,811)
Administrative expenses		**(544,051)**	(370,112)
Other expenses		**(10,171)**	(3,554)
Finance costs	7	**(12,722)**	(13,405)
PROFIT BEFORE TAX	6	**752,609**	259,982
Income tax expense	9	**(142,291)**	(27,493)
PROFIT FOR THE YEAR		**610,318**	232,489
Attributable to:			
Owners of the parent		**564,500**	227,512
Minority interests		**45,818**	4,977
		610,318	232,489
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	12		
Basic		**54.09**	22.05 *(restated)*
Diluted		**51.23**	21.97 *(restated)*

Details of the dividends payable and proposed for the year are disclosed in note 11 to this financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
PROFIT FOR THE YEAR	**610,318**	232,489
OTHER COMPREHENSIVE INCOME		
Gain/(loss) on property revaluation	**7,864**	(2,030)
Income tax effect	**(159)**	913
	7,705	(1,117)
Exchange differences on translation of foreign operations	**12,592**	99,096
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**20,297**	97,979
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**630,615**	330,468
Attributable to:		
Owners of the parent	**584,797**	324,601
Minority interests	**45,818**	5,867
	630,615	330,468

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**436,860**	344,805
Prepaid land lease payments	14	**14,030**	14,376
Goodwill	15	**28,571**	29,187
Deferred tax assets	16	**121,773**	100,001
Intangible assets	17	**8,129**	7,999
Restricted bank deposits	23	**1,064**	1,090
Total non-current assets		**610,427**	497,458
CURRENT ASSETS			
Inventories	19	**1,601,992**	1,052,458
Trade receivables	20	**2,112,331**	1,272,861
Notes receivable	21	**34,801**	35,467
Prepayments, deposits and other receivables	22	**204,208**	121,819
Restricted bank deposits	23	**15,391**	4,168
Cash and cash equivalents	23	**1,145,957**	468,166
Total current assets		**5,114,680**	2,954,939

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CURRENT LIABILITIES			
Trade and bills payables	24	**1,776,021**	922,708
Other payables and accruals	25	**711,904**	400,871
Interest-bearing bank borrowings	26	**90,835**	47,494
Tax payable		**159,350**	53,803
Provisions for product warranties	27	**39,533**	28,531
Total current liabilities		**2,777,643**	1,453,407
NET CURRENT ASSETS		**2,337,037**	1,501,532
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,947,464**	1,998,990
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	**348,342**	3,750
Deferred tax liabilities	16	**6,007**	6,233
Total non-current liabilities		**354,349**	9,983
Net assets		**2,593,115**	1,989,007

Consolidated Statement of Financial Position

31 December 2009

	Notes	**2009**	2008
		HK$'000	HK$'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**106,547**	84,735
Reserves	30(a)	**2,301,938**	1,830,489
Proposed final and special dividends	11	**127,857**	59,315
		2,536,342	1,974,539
Minority interests		**56,773**	14,468
Total equity		**2,593,115**	1,989,007

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

Consolidated Statement of Changes in Equity

31 December 2009

		Attributable to owners of the parent											
	Notes	Issued 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 2008		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
Total comprehensive income for the year		–	–	–	–	(1,117)	–	98,206	227,512	–	324,601	5,867	330,468
Final 2007 dividend declared		–	–	–	–	–	–	–	–	(51,233)	(51,233)	–	(51,233)
Issue of shares	28	148	4,069	(888)	–	–	–	–	–	–	3,329	–	3,329
Repurchase of shares	28	(802)	(7,431)	–	762	–	–	–	(802)	–	(8,273)	–	(8,273)
Equity-settled share option expenses	6	–	–	10,807	–	–	–	–	–	–	10,807	–	10,807
Adjustment arising from lapse of share options		–	–	(621)	–	–	–	–	621	–	–	–	–
Share options cancelled at expiry date		–	–	(7,495)	–	–	–	–	7,495	–	–	–	–
Proposed final 2008 dividend	11	–	–	–	–	–	–	–	(59,315)	59,315	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	2,353	–	(2,353)	–	–	–	–
Staff welfare fund		–	–	–	–	–	–	–	(118)	–	(118)	–	(118)
Disposal of a subsidiary (3% interest in WaveLab)		–	–	–	(2,830)	–	–	–	–	–	(2,830)	1,907	(923)
At 31 December 2008		84,735	374,146*	51,030*	44,442*	29,684*	74,290*	272,620*	984,277*	59,315	1,974,539	14,468	1,989,007

Consolidated Statement of Changes in Equity

31 December 2009

	Notes	Issued 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 and special dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to owners of the parent											
At 1 January 2009		84,735	374,146	51,030	44,442	29,684	74,290	272,620	984,277	59,315	1,974,539	14,468	1,989,007
Total comprehensive income for the year		–	–	–	–	7,705	–	12,592	564,500	–	584,797	45,818	630,615
Dividend paid to minority interests		–	–	–	–	–	–	–	–	–	–	(4,833)	(4,833)
Final 2008 dividend declared		–	–	–	–	–	–	–	–	(59,904)	(59,904)	–	(59,904)
Issue of shares	28	3,626	99,709	(21,157)	–	–	–	–	–	–	82,178	–	82,178
Issue of bonus shares	28	18,186	(18,186)	–	–	–	–	–	–	–	–	–	–
Equity-settled share option expenses	6	–	–	13,758	–	–	–	–	–	–	13,758	–	13,758
Adjustment arising from lapse of share options		–	–	(476)	–	–	–	–	476	–	–	–	–
Share options cancelled at expiry date		–	–	(24,210)	–	–	–	–	24,210	–	–	–	–
Amortization of share transfer into salary cost		–	–	–	1,266	–	–	–	–	–	1,266	–	1,266
Under-provision of final 2008 dividend		–	–	–	–	–	–	–	(589)	589	–	–	–
Interim 2009 dividend	11	–	–	–	–	–	–	–	(57,771)	–	(57,771)	–	(57,771)
Proposed final and special 2009 dividends	11	–	–	–	–	–	–	–	(127,857)	127,857	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	16,369	–	(16,369)	–	–	–	–
Staff welfare fund		–	–	–	–	–	–	–	(585)	–	(585)	–	(585)
Disposal of a subsidiary (2% interest in WaveLab)		–	–	–	(1,936)	–	–	–	–	–	(1,936)	1,320	(616)
Strike-off of a subsidiary		–	–	–	(16)	–	(308)	–	324	–	–	–	–
At 31 December 2009		106,547	455,669*	18,945*	43,756*	37,389*	90,351*	285,212*	1,370,616*	127,857	2,536,342	56,773	2,593,115

* These reserve accounts comprise the consolidated reserves of HK$2,301,938,000 (2008: HK$1,830,489,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**752,609**	259,982
Adjustments for:			
Interest income	5	**(1,529)**	(2,205)
Finance costs	7	**12,722**	13,405
Depreciation	6	**63,035**	54,740
Recognition of prepaid land lease payments	6	**346**	346
Amortization of intangible assets	6	**2,719**	3,620
Amortization of share transfer into salary cost		**1,266**	–
Loss on disposal of items of property, plant and equipment	6	**650**	746
Equity-settled share option expense		**13,758**	10,807
		845,576	341,441
Increase in inventories		**(549,534)**	(297,692)
Increase in trade receivables		**(839,470)**	(173,218)
Decrease/(increase) in notes receivable		**666**	(6,082)
Increase in prepayments, deposits and other receivables		**(82,389)**	(40,417)
Increase in trade and bills payables		**853,313**	374,239
Increase in other payables and accruals		**304,278**	59,060
Increase/(decrease) in provisions for product warranties		**11,002**	(14,047)
Cash generated from operations		**543,442**	243,284
PRC profits tax paid		**(49,656)**	(27,915)
Overseas profits taxes paid		**(8,860)**	(708)
Net cash flows from operating activities		**484,926**	214,661
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,529**	2,205
Purchases of items of property, plant and equipment	13	**(148,432)**	(92,693)
Acquisition of intangible assets	17	**(2,849)**	(4,059)
Proceeds from disposal of items of property, plant and equipment		**590**	1,437
(Increase)/decrease in restricted bank deposits		**(11,197)**	608
Net cash flows used in investing activities		**(160,359)**	(92,502)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows used in investing activities		**(160,359)**	(92,502)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	**82,178**	3,329
New bank borrowings		**893,796**	459,758
Repayment of bank borrowings		**(505,863)**	(501,127)
Amount paid for share repurchase		**–**	(8,273)
Interest paid		**(11,385)**	(13,405)
Dividends paid		**(117,675)**	(51,233)
Net cash flows from/(used in) financing activities		**341,051**	(110,951)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**665,618**	11,208
Cash and cash equivalents at beginning of year		**468,166**	374,496
Effect of foreign exchange rate changes, net		**12,173**	82,462
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,145,957**	468,166
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**1,120,957**	468,166
Non-pledged time deposits with original maturity of less than three months when acquired	23	**25,000**	–
Cash and cash equivalents as stated in the statement of financial position		**1,145,957**	468,166
Cash and cash equivalents as stated in the statement of cash flows		**1,145,957**	468,166

Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**389,131**	386,015
Loan to a subsidiary	18	**127,237**	170,455
Total non-current assets		**516,368**	556,470
CURRENT ASSETS			
Due from subsidiaries	18	**581,200**	401,200
Prepayments, deposits and other receivables	22	**132**	39
Cash and cash equivalents	23	**25,430**	78
Total current assets		**606,762**	401,317
CURRENT LIABILITIES			
Other payables and accruals	25	**22,200**	6,790
NET CURRENT ASSETS		**584,562**	394,527
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,100,930**	950,997
NON-CURRENT LIABILITIES			
Financial guarantee contracts	31	**14,104**	5,914
Net assets		**1,086,826**	945,083
EQUITY			
Issued capital	28	**106,547**	84,735
Reserves	30(b)	**852,422**	801,033
Proposed final and special dividends	11	**127,857**	59,315
Total equity		**1,086,826**	945,083

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

Notes to Financial Statements

31 December 2009

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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings 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 2009. 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 income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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 HKFRSs interpretations and amendments has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (as issued in October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognized in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganizes the structure of its group by establishing a new entity as its parent. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The adoption of the amendments has had no material impact on the disclosures of financial statements.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces 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 concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. As the Group's operating activities are principally attributable to a single operating segment, no analysis in operating segment is presented.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense recognized directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalization 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 has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue — Pre-completion Contracts for the Sale of Development Properties.* It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. The interpretation has had no impact on the financial position or results of operations of the Group.

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

- HKAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognized and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- HKAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortization method for intangible assets other than the straight-line method had been removed. Except for the golf club membership, the Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate. Owing to the indefinite useful life of the golf club membership, the Group reviewed the estimated useful life of the golf club annually and determined that indefinite life assessment continues to be supportable.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[4]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[4]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[3]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs* 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

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

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope* of HKFRS 2 and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions.* The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows,* HKAS 12 *Income Taxes,* HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement.* This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013. The Group expects to early adopt HKFRS 9 from 1 January 2010 and continue to apply HKAS 39 for accounting requirements for financial instruments within its scope that are not covered by HKFRS 9. In accordance with the transitional provisions of HKFRS 9, the Group is not required to restate prior period amounts.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government related entities.

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the HK(IFRIC)-Int 14 Amendments from 1 January 2011. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognized in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

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

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18 and the amendment to HKFRS 8, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKFRS 2 *Share-based Payment*: Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.

(b) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that (i) the disclosures required in respect of non-current assets classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:

   (i) those HKFRSs specifically require disclosures in respect of non-current assets classified as held for sale or discontinued operations; or

   (ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) HKFRS 8 *Operating Segments*: Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

(d) HKAS 1 *Presentation of Financial Statements*: States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

(e) HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognized asset in the statement of financial position can be classified as a cash flow from investing activities.

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

(f) HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases included in Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

(g) HKAS 36 *Impairment of Assets*: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 Operating Segments before aggregation for financial reporting purposes.

(h) HKAS 38 *Intangible Assets*: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) HKAS 39 *Financial Instruments*: *Recognition and Measurement:* Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

(j) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*: Clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

(k) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*: Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied.

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 on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognized in the consolidated statement of financial position 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 recognized. An impairment loss recognized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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 recognized 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.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the 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 the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

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 realized in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Intangible assets (other than goodwill)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Computer software

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

Computer software	3 to 10 years

Golf Club Membership

Golf Club membership with indefinite useful lives is tested for impairment annually. Such intangible assets are not amortized. The useful life is reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Research and development costs

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

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

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 capitalized 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 capitalized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized 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

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized 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.

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

The Group's financial assets include cash and bank balances, trade and other receivables.

Subsequent measurement

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

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement. These net fair value changes not include any dividends on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

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

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 derecognized when:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, financial guarantee contracts and interest-bearing loans and borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognized 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 relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

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

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

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

– 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognized 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 utilized, 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 recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

Government grants

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

Revenue recognition

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

(a) from the sale of goods and 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)

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 for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the 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.

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 capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use of sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 recognized 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

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

3. SIGNIFICANT ACCOUNTING 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 end of the reporting period. 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are 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 the impairment or reversal of the receivables in the period in which such estimate has been changed.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of property, plant, and equipment

The Group tests annually whether property, plant, and equipment have suffered any impairment, which is 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 unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was approximately HK$28,571,000 (2008: HK$29,187,000), further details are given in note 15 to the financial statements.

Provisions for product warranties

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

Fair values

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

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged 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, expenses, profit, assets and liabilities and capital expenditures are principally attributable to a single operating segment, which is located in the People's Republic of China (the "PRC"). Therefore, no analysis in operating segment is presented.

5. REVENUE, OTHER INCOME AND GAINS

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 ("VAT"), and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	2009 HK$'000	2008 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**4,307,913**	2,416,782
Warranty services	**132,078**	109,113
	4,439,991	2,525,895
Other income and gains		
Bank interest income	**1,529**	2,205
Exchange gain, net	**5,626**	–
Government subsidy	**9,076**	2,494
VAT refunds*	**18,408**	4,481
Recovery of bad debts	**–**	4,953
Others	**4,168**	4,950
	38,807	19,083

* In 2008 and 2009, Comba Software Technology (Guangzhou) Limited ("Comba Software"), being a designated software enterprise, was entitled to VAT refunds on the excess of the effective VAT rate of 3%, after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Guangzhou State Tax Bureau （廣州市國家稅務局） and received by Comba Software.

6. PROFIT BEFORE TAX

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

	2009 HK$'000	2008 HK$'000
Cost of inventories sold and services provided	**2,624,635**	1,472,995
Depreciation	**63,035**	54,740
Recognition of prepaid land lease payments	**346**	346
Amortization of intangible assets	**2,719**	3,620
Minimum lease payments under operating leases in respect of land and buildings	**56,322**	46,398
Auditors' remuneration	**2,596**	2,499
Employee benefit expense (including directors' emoluments, note 8):		
Salaries and wages	**584,743**	393,141
Staff welfare expenses	**45,460**	33,981
Equity-settled share option expense	**13,758**	10,807
Pension scheme contributions#	**39,079**	28,472
	683,040	466,401
Exchange (gain)/loss, net	**(5,626)**	8,323
Write-off of inventories	**60,851**	–
Write-down of inventories to net realisable value	**18,960**	9,791
Provisions for product warranties	**40,373**	28,024
Loss on disposal of items of property, plant and equipment	**650**	746
Bank charges	**24,470**	2,580
Bank interest income	**(1,529)**	(2,205)

At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

7. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on bank loans wholly repayable within five years	**10,277**	9,094
Interest on added confirmation of documentary credits	**2,445**	4,311
	12,722	13,405

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:

	2009 HK$'000	2008 HK$'000
Fees	**600**	570
Other emoluments:		
Salaries, allowances and benefits in kind	**12,135**	10,699
Performance related bonuses*	**7,075**	5,751
Equity-settled share option expense	**3,966**	2,358
Pension scheme contributions	**242**	224
	23,418	19,032
	24,018	19,602

* 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.

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

(a) Independent non-executive directors

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

	2009 HK$'000	2008 HK$'000
Mr. Yao Yan	150	135
Mr. Lau Siu Ki, Kevin	150	135
Mr. Liu Cai	200	200
	500	470

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors

2009	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,386	1,494	–	12	3,892
Mr. Zhang Yue Jun	–	1,946	1,444	–	49	3,439
Mr. Tong Chak Wai, Wilson	–	1,426	132	780	12	2,350
Mr. Wu Jiang Cheng	–	1,540	1,628	1,107	49	4,324
Mr. Yan Ji Ci	–	1,297	1,602	988	49	3,936
Mr. Zheng Guo Bao	100	1,684	279	331	59	2,453
Mr. Yeung Pui Sang, Simon	–	1,856	496	760	12	3,124
	100	12,135	7,075	3,966	242	23,518

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

(b) Executive directors (continued)

2008	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,263	1,237	–	12	3,512
Mr. Zhang Yue Jun	–	1,842	1,190	–	50	3,082
Mr. Tong Chak Wai, Wilson*	–	103	–	49	1	153
Mr. Wu Jiang Cheng	–	1,448	1,373	590	50	3,461
Mr. Yan Ji Ci	–	1,223	1,349	523	50	3,145
Mr. Zheng Guo Bao	100	1,485	–	209	44	1,838
Mr. Yeung Pui Sang, Simon	–	1,745	360	987	12	3,104
Mr. Chan Kai Leung, Clement	–	590	242	–	5	837
	100	10,699	5,751	2,358	224	19,132

* Mr. Tong Chak Wai, Wilson was appointed as director of the Company on 21 November 2008.

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

(c) Five highest paid employees

The five highest paid employees during the year included five (2008: five) directors, details of whose remuneration are set out above.

9. INCOME 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 (2008: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2009	2008
	HK$'000	HK$'000
Current year provision:		
Mainland China	**153,951**	52,963
Overseas	**10,092**	857
Deferred tax	**(21,752)**	(26,327)
Total tax charge for the year	**142,291**	27,493

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 has 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%. Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou"), being a manufacturing foreign invested enterprise ("FIE"); located in Guangzhou Science City, is eligible to enjoy the transitional arrangement under the New Corporate Income Tax Law. The income tax rate of Comba Guangzhou was 20% in 2009. In addition, Comba Guangzhou was designated as a High-New Technology Enterprise by Guangdong Science and Technology Department on 14 December 2009. Being a High-New Technology Enterprise, Comba Guangzhou is entitled to the preferential tax rate of 15% for another three years from 1 January 2010 to 31 December 2012.

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. On 16 December 2007, Comba Technology was designated as an Advance Technology FIE by Guangzhou Foreign Trade and Economic Cooperation Bureau, and was entitled to the preferential tax rate of 10% from 1 January 2008 to 31 December 2009. On 16 December 2008, Comba Technology was designated as a High-New Technology Enterprise by Guangdong Science and Technology Department, and was entitled to the preferential tax rate of 15% from 1 January 2010 to 31 December 2011.

9. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions 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:

	2009		2008	
	HK$'000	**%**	HK$'000	%
Profit before tax	**752,609**		259,982	
Tax at the applicable tax rate	**188,152**	**25.0**	64,995	25.0
Lower tax rates for specific provinces or enacted by local authority	**(172,163)**	**(22.9)**	(77,340)	(29.8)
Effect on opening deferred tax of decrease/(increase) in rate	**23,722**	**3.1**	(7,666)	(2.9)
Expenses not deductible for tax	**37,485**	**5.0**	15,532	6.0
Additional deductible research and development expense	**(7,386)**	**(1.0)**	(4,197)	(1.6)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**8,006**	**1.1**	–	–
Tax losses not recognized	**64,475**	**8.6**	36,169	13.9
Tax charge at the Group's effective rate	**142,291**	**18.9**	27,493	10.6

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$274,111,000 (2008: HK$99,642,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognized deferred tax assets at 31 December 2009.

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

Effective deferred tax rate in 2009 was 15% (2008: 20%).

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of HK$163,482,000 (2008: HK$35,657,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. DIVIDENDS

	2009	2008
	HK$'000	HK$'000
Interim — HK6 cents (2008: Nil) per ordinary share	**57,771**	—
Proposed final — HK8 cents (2008: HK7 cents) per ordinary share	**85,238**	59,315
Proposed special — HK4 cents (2008: Nil) per ordinary share	**42,619**	—
	185,628	59,315

The special dividend is non-recurring in nature. Both the proposed final and special dividends were declared by a board resolution on 31 March 2010.

The proposed final and special dividends for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and, if passed, will be paid on 1 June 2010.

No deduction or withholding tax will be imposed on the payment of dividends by the Company to its shareholders.

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 of 1,043,601,000 (2008 (restated): 1,031,842,000) in issue during the year, as adjusted to reflect the bonus issues 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:

	2009 **HK$'000**	2008 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**564,500**	227,512

	Number of shares **2009**	2008 (restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,043,601,000**	1,031,842,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**58,229,000**	3,533,000
	1,101,830,000	1,035,375,000

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 2009						
At 31 December 2008 and at 1 January 2009:						
Cost or valuation	162,990	257,158	91,162	18,930	5,874	536,114
Accumulated depreciation	(1,845)	(126,638)	(51,570)	(11,256)	–	(191,309)
Net carrying amount	161,145	130,520	39,592	7,674	5,874	344,805
At 1 January 2009, net of accumulated depreciation	161,145	130,520	39,592	7,674	5,874	344,805
Additions	8,374	63,190	28,665	7,818	40,385	148,432
Surplus on revaluation	7,864	–	–	–	–	7,864
Disposals	–	(172)	(978)	(90)	–	(1,240)
Depreciation provided during the year	(7,065)	(34,665)	(18,409)	(2,896)	–	(63,035)
Transfer	46,259	–	–	–	(46,259)	–
Exchange realignment	(7)	27	9	5	–	34
At 31 December 2009, net of accumulated depreciation	216,570	158,900	48,879	12,511	–	436,860
At 31 December 2009:						
Cost or valuation	225,487	319,602	113,362	25,629	–	684,080
Accumulated depreciation	(8,917)	(160,702)	(64,483)	(13,118)	–	(247,220)
Net carrying amount	216,570	158,900	48,879	12,511	–	436,860
Analysis of cost or valuation:						
At cost	4,116	319,602	113,362	25,629	–	462,709
At valuation	221,371	–	–	–	–	221,371
	225,487	319,602	113,362	25,629	–	684,080

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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 2008						
At 31 December 2007 and at 1 January 2008:						
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
At 1 January 2008, net of accumulated depreciation	155,742	93,257	38,279	6,317	105	293,700
Additions	1,165	68,246	14,133	3,387	5,762	92,693
Deficit on revaluation	(2,030)	–	–	–	–	(2,030)
Disposals	–	(316)	(1,711)	(156)	–	(2,183)
Depreciation provided during the year	(6,942)	(32,743)	(12,822)	(2,233)	–	(54,740)
Exchange realignment	13,210	2,076	1,713	359	7	17,365
At 31 December 2008, net of accumulated depreciation	161,145	130,520	39,592	7,674	5,874	344,805
At 31 December 2008:						
Cost or valuation	162,990	257,158	91,162	18,930	5,874	536,114
Accumulated depreciation	(1,845)	(126,638)	(51,570)	(11,256)	–	(191,309)
Net carrying amount	161,145	130,520	39,592	7,674	5,874	344,805
Analysis of cost or valuation:						
At cost	4,116	257,158	91,162	18,930	5,874	377,240
At valuation	158,874	–	–	–	–	158,874
	162,990	257,158	91,162	18,930	5,874	536,114

The Group's leasehold land and buildings were revalued individually at the end of the reporting period, by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$221,371,000 or RMB194,903,000 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$175,620,000 at the end of the reporting period. At 31 December 2009, the Group is in the process of obtaining the building ownership certificate for the new seven-storeyed factory located in Guangzhou Economic and Technology Development District with fair value of approximately HK$62,583,000. A revaluation surplus of HK$7,864,000, resulting from the above valuations, has been credited to other comprehensive income.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Group	2009 HK$'000	2008 HK$'000
At valuation:		
Long term leases	**10,052**	7,088
Medium term leases	**211,319**	151,786
	221,371	158,874
At cost:		
Medium term leases	**4,116**	4,116
	225,487	162,990

14. PREPAID LAND LEASE PAYMENTS

Group	2009 HK$'000	2008 HK$'000
Carrying amount at 1 January	**14,722**	14,178
Recognized during the year	**(346)**	(346)
Exchange realignment	**–**	890
Carrying amount at 31 December	**14,376**	14,722
Current portion included in prepayments, deposits and other receivables	**(346)**	(346)
Non-current portion	**14,030**	14,376

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

15. GOODWILL

Group	2009 HK$'000	2008 HK$'000
Cost and net carrying amount at 1 January	**29,187**	30,110
Cost at 1 January, net of accumulated impairment	**29,187**	30,110
Disposal of a minority interest of a subsidiary	**(616)**	(923)
Cost and net carrying amount at 31 December	**28,571**	29,187

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the wireless telecommunications equipment cash-generating units 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 at least five-year period approved by management. The discount rate applied to the cash flow projections is approximately 21%.

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

16. DEFERRED TAX

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

Deferred tax assets

Group	Unrealized profit arising on consolidation HK$'000
At 1 January 2008	68,997
Deferred tax credited to the income statement during the year (note 9)	26,327
Exchange realignment	4,677
At 31 December 2008	100,001
Deferred tax credited to the income statement during the year (note 9)	21,752
Exchange realignment	20
At 31 December 2009	121,773

16. DEFERRED TAX (continued)

Deferred tax liabilities

Group	Revaluation of properties HK$'000
At 1 January 2008	6,761
Deferred tax debited to equity during the year	(913)
Exchange realignment	385
At 31 December 2008	6,233
Deferred tax credited to equity during the year	159
Exchange realignment	(385)
At 31 December 2009	6,007

17. INTANGIBLE ASSETS

Group	Computer Software HK$'000	Golf Club Membership HK$'000	Total HK$'000
31 December 2009			
Cost at 1 January 2009, net of accumulated amortization	**7,999**	**–**	**7,999**
Additions	**1,735**	**1,114**	**2,849**
Amortization provided during the year	**(2,719)**	**–**	**(2,719)**
At 31 December 2009	**7,015**	**1,114**	**8,129**
At 31 December 2009:			
Cost	**28,251**	**1,114**	**29,365**
Accumulated amortization	**(21,236)**	**–**	**(21,236)**
Net carrying amount	**7,015**	**1,114**	**8,129**
31 December 2008			
At 1 January 2008, net of accumulated amortization	7,124	–	7,124
Additions	4,059	–	4,059
Amortization provided during the year	(3,620)	–	(3,620)
Exchange realignment	436	–	436
At 31 December 2008	7,999	–	7,999
At 31 December 2008 and at 1 January 2009:			
Cost	26,520	–	26,520
Accumulated amortization	(18,521)	–	(18,521)
Net carrying amount	7,999	–	7,999

18. INTERESTS IN SUBSIDIARIES

Company	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**375,027**	380,101
Financial guarantees granted to subsidiaries (note 31)	**14,104**	5,914
	389,131	386,015

The amounts due from subsidiaries included in the Company's current assets of HK$581,200,000 (2008: HK$401,200,000) are unsecured, interest-free and are repayable on demand or within one year. The loan to the subsidiary of HK$127,237,000 (2008: HK$170,455,000) 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.

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ 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
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	USD41,865,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Guangzhou Telink Telecom Equipment 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

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems International Limited	British Virgin Islands	US$1	–	100	Investment holding
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG$2	–	100	Provision of marketing services
Cascade Technology Limited	British Virgin Islands	US$1	–	100	Investment holding
WaveLab Holdings Limited▲	Cayman Islands	US$1,000	–	55	Investment holding
WaveLab, Inc.▲	State of Virginia/ United States of America	No par value	–	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated#▲	State of Virginia/ United States of America	No par value	–	55	Sale of digital microwave system equipment
WaveLab Asia Holdings Limited▲	British Virgin Islands	US$1	–	55	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司*▲	PRC/ Mainland China	US$3,400,000	–	55	Manufacture and sale of digital microwave system equipment
WaveLab Software Technology (Guangzhou) Limited 波達軟件科技（廣州）有限公司#*▲	PRC/ Mainland China	US$500,030	–	55	Provision of software technology services

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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 and provision of related engineering services
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
Comba Telecom Limited	Hong Kong	HK$2	—	100	Trading of wireless telecommunications network enhancement system equipment
Comba Telecom Co., Ltd.	Thailand	THB2,000,000	—	100	Trading of wireless telecommunications network enhancement system equipment

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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.	State of Delaware/ United States of America	US$1	—	100	Research and development and trading of wireless telecommunications network enhancement system equipment
Comba Software Technology (Guangzhou) Limited 京信軟件科技（廣州）有限公司*	PRC/ Mainland China	HK$10,000,000	—	100	Provision of software technology services
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda. (formerly known as Comba Comercio de Equipamentos de Telecomunicacoes Ltda)	Brazil	BRL446,459	—	100	Production and assembling and trading of wireless telecommunications network enhancement system equipment
Guangzhou Tai Pu Wireless Telecommunications Equipment Limited 廣州泰普無綫通信設備有限公司*	PRC/ Mainland China	RMB1,000,000	—	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services
Wavelab Limited 波達有限公司▲	Hong Kong	HK$1	—	55	Investment holding

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Pakistan (Private) Limited	Pakistan	PKR1,000,000	—	100	Dormant
Comba Telecom India Private Limited#	India	INR500,000	—	100	Trading of wireless telecommunications network enhancement system equipment
Future Wireless Limited#	Hong Kong	HK$1	—	100	Dormant

Notes:

- # These subsidiaries were set up during the year.
- * These are wholly-foreign-owned enterprises under PRC law.
- ▲ On 16 July 2009, the Group effectively disposed 2% share of these subsidiaries to its employee for a cash consideration of HK$1.
- ▼ The strike-off of this subsidiary was completed on 10 September 2009.

19. INVENTORIES

Group	2009 HK$'000	2008 HK$'000
Raw materials	**158,499**	124,044
Project materials	**111,427**	88,691
Work in progress	**129,954**	120,234
Finished goods	**263,923**	221,446
Inventories on site	**938,189**	498,043
	1,601,992	1,052,458

20. TRADE RECEIVABLES

Group	2009 HK$'000	2008 HK$'000
Trade receivables	**2,128,483**	1,289,013
Impairment	**(16,152)**	(16,152)
	2,112,331	1,272,861

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 balance 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 minimize the credit risk. Overdue balances are reviewed regularly by senior management.

Notes to Financial Statements

31 December 2009

20. TRADE RECEIVABLES (continued)

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

Group	**2009** **HK$'000**	2008 HK$'000
Within 3 months	**1,213,439**	660,816
4 to 6 months	**287,330**	149,900
7 to 12 months	**326,793**	186,478
More than 1 year	**300,921**	291,819
	2,128,483	1,289,013
Impairment	**(16,152)**	(16,152)
	2,112,331	1,272,861

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

Group	**2009** **HK$'000**	2008 HK$'000
At 1 January	**16,152**	20,779
Impairment losses recognized	**–**	17
Amount written off as uncollectible	**–**	(617)
Impairment losses reversed	**–**	(4,953)
Exchanged realignment	**–**	926
	16,152	16,152

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.

20. TRADE RECEIVABLES (continued)

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

Group	**2009** **HK$'000**	2008 HK$'000
Neither past due nor impaired	**2,053,630**	1,174,686
Less than 1 year past due	**58,701**	95,901
	2,112,331	1,270,587

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

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

21. NOTES RECEIVABLE

At 31 December 2009 and 31 December 2008, none of the notes receivables were endorsed or discounted.

All notes receivables of the Group are to be mature within six months.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2009 **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
Prepayments	**88,171**	29,726	**132**	39
Deposits	**22,267**	24,605	**–**	–
Other receivables	**93,770**	67,488	**–**	–
	204,208	121,819	**132**	39

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

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,120,957**	467,133	**430**	78
Time deposits	**41,455**	6,291	**25,000**	–
	1,162,412	473,424	**25,430**	78
Less:				
Restricted bank deposits for performance bonds	**(16,455)**	(5,258)	**–**	–
Cash and cash equivalents	**1,145,957**	468,166	**25,430**	78

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,027,595,000 (2008: HK$400,661,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balance and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values.

24. TRADE AND BILLS PAYABLES

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

	2009	2008
Group	**HK$'000**	HK$'000
Within 3 months	**1,040,486**	709,727
4 to 6 months	**490,781**	126,072
7 to 12 months	**212,291**	49,162
More than 1 year	**32,463**	37,747
	1,776,021	922,708

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**207,258**	134,951	**2,182**	3,209
Deposits received	**165,916**	115,280	**–**	–
Other payables	**338,730**	150,640	**20,018**	3,581
	711,904	400,871	**22,200**	6,790

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 BORROWINGS

	2009	2008
Group	**HK$'000**	HK$'000
Analyzed into:		
Within 1 year	**90,835**	47,494
In the second year	**174,171**	3,750
In the third year	**174,171**	–
	439,177	51,244

All the bank loans at 31 December 2009 and 31 December 2008 were unsecured. Loans denominated in Hong Kong dollars amounted to HK$3,750,000 (2008: HK$46,500,000) and loans denominated in United States dollars amounted to HK$435,427,000 (2008: HK$4,744,000).

On 3 July 2009, Comba Telecom Systems Limited, an indirect subsidiary of the Company, entered into a United States dollar term loan facility agreement (the "Facility Agreement") with a group of financial institutions namely China Minsheng Banking Corporation Limited, The Hongkong and Shanghai Banking Corporation Limited, China Merchants Bank Co., Ltd, Bank of Ayudhya Public Company Limited, Bangkok Bank Public Company Limited, Cathay United Bank Co., Ltd, Xiamen International Bank, Hua Nan Commercial Bank, Ltd, Chang Hwa Commercial Bank, Ltd, Taiwan Business Bank (collectively referred to as the "Lenders") for a facility up to a total of US$85,000,000.

On 2 September 2009, CITIC Ka Wah Bank Limited, Hang Seng Bank Limited and the Industrial Bank of Taiwan Co., Ltd. (collectively referred to as the "Lenders") signed an accession memorandum (the "Accession Memorandum") to accede to the Facility Agreement for an additional facility up to a total of US$15,000,000.

26. INTEREST-BEARING BANK BORROWINGS (continued)

Subject to the terms and conditions of the Facility Agreement and the Accession Memorandum, the Lenders have committed to make available to the Group a term loan facility up to a total of US$100,000,000 in aggregate. The facility matures in 36 months from the signing date of the Facility Agreement.

The facility was granted for the purpose of financing the Group's capital expenditure, permanent working capital, 3G corporate development and expansion into the international market.

Under the facility Agreement, there is a specific performance obligation that Mr. Fok Tung Ling and Mr. Zhang Yue Jun, the controlling shareholders of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 40% of the shares (of each class) of and equity interests in the Company free from any Security (as defined by the Facility Agreement). As at the date of this report, such obligation has been complied with.

At as 31 December 2009, the Group has utilized the facility of US$56,180,000 (equivalent to HK$435,427,000).

All the bank loans bear interest at rates ranging from 1.10% to 4.56% (2008: from 1.05% to 6.57%) per annum.

The carrying amounts of the Group's borrowings approximate to its fair value.

27. PROVISIONS FOR PRODUCT WARRANTIES

Group	**2009** **HK$'000**	2008 HK$'000
At 1 January	**28,531**	40,066
Additional provisions	**40,373**	28,024
Amounts utilized during the year	**(29,382)**	(42,071)
Exchange realignment	**11**	2,512
At 31 December	**39,533**	28,531

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

Shares	2009 HK$'000	2008 HK$'000
Authorized:		
5,000,000,000 (2008: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
1,065,475,095 (2008: 847,351,500) ordinary shares of HK$0.10 each	**106,547**	84,735

During the year, the movements in share capital were as follows:

(a) Pursuant to the annual general meeting held on 2 June 2009, bonus issue of shares on the basis of one share for every ten shares held was approved. 85,577,300 bonus shares were issued under the bonus issue and the amount of HK$8,558,000 was capitalized from the Company's share premium account. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

(b) Pursuant to the extraordinary general meeting held on 9 October 2009, bonus issue of shares on the basis of one share for every ten shares held was approved. 96,284,260 bonus shares were issued under the bonus issue and the amount of HK$9,628,000 was capitalized from the Company's share premium account. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

(c) As a result of the bonus issues of shares mentioned above, in accordance with the terms of the share option scheme and the supplementary guidance dated 5 September 2005 issued by the Stock Exchange regarding adjustment of share options under rule 17.03(13) of the Listing Rules, the exercise price of and the number of shares falling to be allotted and issued upon full exercise of the outstanding share options of the share option scheme have been adjusted (note 29).

(d) The subscription rights attaching to 36,262,035 share options were exercised at the adjusted subscription prices of HK$0.578 to HK$3.925 per share (note 29), resulting in issue of 36,262,035 shares of HK$0.10 each for a total cash consideration, before expenses of HK$82,178,000.

28. SHARE CAPITAL (continued)

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2008	853,891,500	85,389	377,508	462,897
Share options exercised	1,476,000	148	4,069	4,217
Repurchase of shares	(8,016,000)	(802)	(7,431)	(8,233)
At 31 December 2008 and 1 January 2009	847,351,500	84,735	374,146	458,881
Share options exercised	36,262,035	3,626	99,709	103,335
Bonus issues of shares	181,861,560	18,186	(18,186)	–
At 31 December 2009	1,065,475,095	106,547	455,669	562,216

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, licencees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholders or companies controlled by a Company's controlling shareholder. The Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% 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.

29. SHARE OPTION SCHEME (continued)

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

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

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The following share options were outstanding under the Scheme during the year:

	2009		2008	
	Weighted average exercise price of share options*	**Number of share options***	Weighted average exercise price of share options*	Number of share options
	HK$ per share	**'000**	HK$ per share	'000
At 1 January	**1.88**	**124,112**	3.10	60,408
Granted during the year	**–**	**–**	1.46	58,000
Forfeited during the year	**1.69**	**(1,140)**	3.36	(1,903)
Exercised during the year	**2.05**	**(40,180)**	2.26	(1,476)
Expired during the year	**3.24**	**(22,876)**	2.25	(12,457)
At 31 December	**1.26**	**59,916**	2.28	102,572

* The weighted average exercise price per share and number of options had been adjusted as a result of the bonus issues of shares approved on 2 June 2009 and 9 October 2009.

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.39 (2008: HK$2.71).

29. SHARE OPTION SCHEME (continued)

	Number of share options									Exercise
Name or category of participant	**At 1 January 2009**	Granted during the year	Adjusted during the year#	Exercised during the year	Expired during the year	Forfeited during the year	**At 31 December 2009**	Date of grant of share options*	Exercise period of share options	price of share options** HK$ per share
Directors										
Mr. Tong Chak Wai, Wilson	**2,000,000**	–	420,000	–	–	–	**2,420,000**	21 Jul 2008	21 Jul 2009–20 Jul 2011	1.785
	1,000,000	–	210,000	–	–	–	**1,210,000**	4 Nov 2008	4 Nov 2009–3 Nov 2011	0.578
	3,000,000	–	630,000	–	–	–	**3,630,000**			
Mr. Wu Jiang Cheng	**2,600,000**	–	403,000	(1,430,000)	–	–	**1,573,000**	21 Jul 2008	21 Jul 2009–20 Jul 2011	1.785
	2,200,000	–	462,000	–	–	–	**2,662,000**	4 Nov 2008	4 Nov 2009–3 Nov 2011	0.578
	4,800,000	–	865,000	(1,430,000)	–	–	**4,235,000**			
Mr. Yan Ji Ci	**2,300,000**	–	383,000	(1,000,000)	–	–	**1,683,000**	21 Jul 2008	21 Jul 2009–20 Jul 2011	1.785
	2,000,000	–	420,000	–	–	–	**2,420,000**	4 Nov 2008	4 Nov 2009–3 Nov 2011	0.578
	4,300,000	–	803,000	(1,000,000)	–	–	**4,103,000**			
Mr. Zheng Guo Bao	**1,000,000**	–	210,000	–	–	–	**1,210,000**	21 Jul 2008	21 Jul 2009–20 Jul 2011	1.785
Mr. Yeung Pui Sang, Simon	**2,000,000**	–	200,000	(2,200,000)	–	–	**–**	7 Oct 2004	7 Nov 2004–6 Oct 2009	3.318
	2,000,000	–	420,000	–	–	–	**2,420,000**	22 Dec 2005	22 Dec 2006–21 Dec 2010	2.169
	1,500,000	–	315,000	–	–	–	**1,815,000**	21 Jul 2008	21 Jul 2009–20 Jul 2011	1.785
	1,300,000	–	273,000	–	–	–	**1,573,000**	4 Nov 2008	4 Nov 2009–3 Nov 2011	0.578
	6,800,000	–	1,208,000	(2,200,000)	–	–	**5,808,000**			

29. SHARE OPTION SCHEME (continued)

	Number of share options									Exercise
Name or category of participant	At 1 January 2009	Granted during the year	Adjusted during the year#	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Other employees										
In aggregate	**22,208,000**	–	–	(3,182,000)	(18,906,000)	(120,000)	**–**	27 May 2004	27 May 2005–26 May 2009	3.925
	12,490,000	–	1,469,190	(8,643,205)	–	(35,750)	**5,280,235**	22 Dec 2005	22 Dec 2006–21 Dec 2010	2.169
	5,874,000	–	468,810	(5,449,640)	–	(272,000)	**621,170**	8 Mar 2007	8 Mar 2008–7 Mar 2010	2.380
	20,600,000	–	3,381,680	(9,740,290)	–	(168,600)	**14,072,790**	21 Jul 2008	21 Jul 2009–20 Jul 2011	1.785
	21,500,000	–	4,483,100	(4,616,900)	–	(409,900)	**20,956,300**	4 Nov 2008	4 Nov 2009–3 Nov 2011	0.578
	82,672,000	–	9,802,780	(31,632,035)	(18,906,000)	(1,006,250)	**40,930,495**			
	102,572,000	–	13,518,780	(36,262,035)	(18,906,000)	(1,006,250)	**59,916,495**			

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

** The exercise price of the share options is adjusted arising from the two bonus issues of shares approved on 2 June 2009 and 9 October 2009.

*** The weighted average closing price of the Company's share immediately before the exercise dates of the share options was HK$5.232.

The options were adjusted as a result of the bonus issues of shares on the following dates:

On 2 June 2009, the total number of ordinary shares falling to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 74,864,500 options granted under the Scheme was adjusted from 74,864,500 ordinary shares of HK$0.1 each to 82,350,950 ordinary shares of HK$0.1 each, and the adjusted exercise prices of all outstanding options ranged from HK$0.636 (2008: HK$0.70) to HK$3.318 (2008: HK$3.65) per ordinary share, both effective from 2 June 2009.

On 9 October 2009, the total number of ordinary shares falling to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 60,323,300 options granted under the Scheme was adjusted from 60,323,300 ordinary shares of HK$0.1 each to 66,355,630 ordinary shares of HK$0.1 each, and the adjusted exercise prices of all outstanding options ranged from HK$0.578 (before 9 October 2009: HK$0.636) to HK$2.38 (before 9 October 2009: HK$2.618) per ordinary share, both effective from 9 October 2009.

29. SHARE OPTION SCHEME (continued)

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

Number of share options '000	**2009 Exercise price of share options* HK$ per share**	**Exercise period**
7,700	**2.169**	**22 December 2006 to 21 December 2010**
621	**2.380**	**8 March 2008 to 7 March 2010**
22,774	**1.785**	**21 July 2009 to 20 July 2011**
28,821	**0.578**	**4 November 2009 to 3 November 2011**
59,916		

Number of share options '000	2008 Exercise price of share options HK$ per share	Exercise period
22,208	3.925	27 May 2005 to 26 May 2009
2,000	3.65	7 November 2004 to 6 October 2009
14,490	2.625	22 December 2006 to 21 December 2010
5,874	2.88	8 March 2008 to 7 March 2010
30,000	2.16	21 July 2009 to 20 July 2011
28,000	0.70	4 November 2009 to 3 November 2011
102,572		

* The exercise price of the share options is adjusted arising from the two bonus issues of shares approved on 2 June 2009 and 9 October 2009.

The 36,262,035 share options exercised during the year resulted in the issue of 36,262,035 ordinary shares of the Company and new share capital of HK$3,626,000 and share premium of HK$99,709,000, as detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 59,916,495 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 59,916,495 additional ordinary shares of the Company and additional share capital of HK$5,992,000 and share premium of HK$69,498,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 56,144,220 share options outstanding under the Scheme, which represented approximately 5.3% 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 48 and 49 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

	Notes	Share premium account HK$'000	Contributed surplus* HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2008		377,508	373,108	49,227	–	18,331	818,174
Total comprehensive income for the year		–	–	–	–	35,657	35,657
Issue of shares	28	4,069	–	(888)	–	–	3,181
Repurchase of shares	28	(7,431)	–	–	762	(802)	(7,471)
Equity-settled share option expenses		–	–	10,807	–	–	10,807
Adjustment arising from lapse of share options		–	–	(621)	–	621	–
Share options cancelled at expiry date		–	–	(7,495)	–	7,495	–
Proposed final 2008 dividend	11	–	–	–	–	(59,315)	(59,315)
At 31 December 2008		374,146	373,108	51,030	762	1,987	801,033

Notes to Financial Statements

31 December 2009

30. RESERVES (continued)

(b) Company (continued)

	Notes	Share premium account HK$'000	Contributed surplus* HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2008		374,146	373,108	51,030	762	1,987	801,033
Total comprehensive income for the year		–	–	–	–	163,482	163,482
Issue of shares	28	99,709	–	(21,157)	–	–	78,552
Issue of bonus shares	28	(18,186)	–	–	–	–	(18,186)
Equity-settled share option expenses		–	–	13,758	–	–	13,758
Adjustment arising from lapse of share options		–	–	(476)	–	476	–
Share options cancelled at expiry date		–	–	(24,210)	–	24,210	–
Under-provision of final 2008 dividend		–	–	–	–	(589)	(589)
Interim 2009 dividend		–	–	–	–	(57,771)	(57,771)
Proposed final and special 2009 dividends	11	–	–	–	–	(127,857)	(127,857)
At 31 December 2009		455,669	373,108	18,945	762	3,938	852,422

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

31. CONTINGENT LIABILITIES

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in respect of performance bonds	**31,878**	21,678	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**950,202**	280,550
	31,878	21,678	**950,202**	280,550

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilized to the extent of approximately HK$439,177,000 (2008: HK$51,244,000). The carrying amount of the financial guarantee contracts recognized in the Company's Statement of Financial Position in accordance with the HKAS 39 and HKFRS 4 was HK$14,104,000 (2008: HK$5,914,000). The financial guarantee contracts were eliminated on consolidation.

32. 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 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**29,315**	25,185	**–**	–
In the second to fifth years, inclusive	**33,181**	21,983	**–**	–
After five years	**15,941**	18,606	**–**	–
	78,437	65,774	**–**	–

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group and the Company had the following capital commitments for the procurement of production and office facilities at the end of the reporting period:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted, but not provided for:				
Buildings	**11,710**	–	**–**	–
Plant and machinery	**2,150**	3,046	**–**	–
Furniture and fixture	**735**	413	**–**	–
Intangible assets	**–**	418	**–**	–
	14,595	3,877	**–**	–

34. RELATED PARTY TRANSACTIONS

(a) The group had no significant transactions with related party 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:

	2009	2008
	HK$'000	HK$'000
Short term employee benefits	**19,810**	17,020
Post-employment benefits	**242**	224
Equity-settled share option expense	**3,966**	2,358
Total compensation paid to key management personnel	**24,018**	19,602

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

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group Financial assets	2009 Loans and receivables HK$'000	2008 Loans and receivables HK$'000
Trade receivables	2,112,331	1,272,861
Notes receivable	34,801	35,467
Financial assets included in prepayments, deposits and other receivables (note 22)	116,037	92,093
Restricted bank deposits	16,455	5,258
Cash and cash equivalents	1,145,957	468,166
	3,425,581	1,873,845

Group Financial liabilities	2009 Financial liabilities at amortized cost HK$'000	2008 Financial liabilities at amortized cost HK$'000
Trade and bills payables	1,776,021	922,708
Financial liabilities included in other payables and accruals (note 25)	338,730	150,640
Interest-bearing bank borrowings	439,177	51,244
	2,553,928	1,124,592

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company **Financial assets**	**2009** **HK$'000**	2008 HK$'000
Cash and cash equivalents	**25,430**	78

Company **Financial liabilities**	**2009** **HK$'000**	2008 HK$'000
Financial liabilities included in other payables and accruals (note 25)	**20,018**	3,581
Financial guarantee contracts	**14,104**	5,914
	34,122	9,495

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, 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 interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2009			
United States dollars	**50**	**(1,044)**	**–**
United States dollars	**(50)**	**1,044**	**–**
2008			
Hong Kong dollar	50	(19)	–
Hong Kong dollar	(50)	19	–

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 3.4% (2008: 10.0%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sales, whilst almost 92.3% (2008: 95.0%) of costs are denominated in the units' functional currency.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollars ("US$") exchange rate, with all over variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2009			
If Hong Kong dollar weakens against US$	**5**	**(18,277)**	**–**
If Hong Kong dollar strengthens against US$	**(5)**	**18,277**	**–**
2008			
If Hong Kong dollar weakens against US$	5	3,436	–
If Hong Kong dollar strengthens against US$	(5)	(3,436)	–

* Excluding retained profits

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 instruments.

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group has certain concentrations of credit risk as 39% (2008: 39%) and 90% (2008: 93%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, within the PRC segment.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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 borrowings and other interest-bearing borrowings. In addition, banking facilities have been put in place for contingency purpose. The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

		2009	
	Within 1 year	**1 to 5 years**	**Total**
Group	**HK$'000**	**HK$'000**	**HK$'000**
Interest-bearing bank and other borrowings	**90,835**	**348,342**	**439,177**
Trade and bills payables	**1,776,021**	**–**	**1,776,021**
Other payables and accruals	**711,904**	**–**	**711,904**
	2,578,760	**348,342**	**2,927,102**

		2008	
	Within 1 year	1 to 5 years	Total
Group	HK$'000	HK$'000	HK$'000
Interest-bearing bank and other borrowings	47,494	3,750	51,244
Trade and bills payables	922,708	–	922,708
Other payables and accruals	400,871	–	400,871
	1,371,073	3,750	1,374,823

36. 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the total assets. The gearing ratios as at the dates of the Statement of Financial Position were as follows:

Group	**2009** **HK$'000**	2008 HK$'000
Interest-bearing bank borrowings	**439,177**	51,244
Total assets	**5,725,107**	3,452,397
Gross gearing ratio	**7.7%**	1.5 %

37. EVENT AFTER THE REPORTING PERIOD

The Board proposes to increase the share capital of the Company by capitalising the share premium of the Company, pursuant to which bonus shares will be allotted and issued to the shareholders on the basis of 1 bonus share for every 10 ordinary shares held by the shareholders. Based on a total of 1,065,475,095 shares in issue as at 31 December 2009, 106,547,510 bonus shares will be issued by the Company. The share capital of the Company will increase from HK$106,547,000 to HK$117,202,000 upon completion of the bonus issue.

The bonus issue and the increase in the Company's share capital are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 authorized for issue by the board of directors on 31 March 2010.

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				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,439,991**	2,525,895	1,768,418	1,550,441	1,170,515
Cost of sales	**(2,758,068)**	(1,579,861)	(1,087,161)	(963,901)	(696,189)
Gross profit	**1,681,923**	946,034	681,257	586,540	474,326
Other income and gains	**38,807**	19,083	23,766	11,799	8,851
Research and development costs	**(167,024)**	(132,253)	(91,087)	(76,267)	(62,509)
Selling and distribution costs	**(234,153)**	(185,811)	(134,953)	(107,472)	(86,955)
Administrative expenses	**(544,051)**	(370,112)	(271,712)	(243,942)	(223,000)
Other expenses	**(10,171)**	(3,554)	(1,534)	(6,954)	(3,454)
Finance costs	**(12,722)**	(13,405)	(7,973)	(15,918)	(21,480)
PROFIT BEFORE TAX	**752,609**	259,982	197,764	147,786	85,779
Income tax expense	**(142,291)**	(27,493)	(7,193)	(16,561)	(7,315)
PROFIT FOR THE YEAR	**610,318**	232,489	190,571	131,225	78,464
Attributable:					
Owners of the parent	**564,500**	227,512	191,619	131,140	82,089
Minority interests	**45,818**	4,977	(1,048)	85	(3,625)

Five Year Financial Summary

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**5,725,107**	3,452,397	2,759,342	2,416,552	2,182,236
TOTAL LIABILITIES	**(3,131,992)**	(1,463,390)	(1,054,392)	(1,009,693)	(986,921)
MINORITY INTERESTS	**(56,773)**	(14,468)	(6,694)	(7,742)	(7,657)
	2,536,342	1,974,539	1,698,256	1,399,117	1,187,658

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