Notes to Financial Statements

31 December 2004

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 in Hong Kong is located at Units 1503-1510, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's investments 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 acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is account for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the land and building 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 profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Leasehold land and buildings	The shorter of lease terms and 20 years
Plant and machinery	5-10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure, which does not meet these criteria is expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets 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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets and unused tax losses can be utilised:

— except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs are expensed in the year in which they are incurred.

Dividends

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

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

4. SEGMENT INFORMATION

The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services. All of the Group's products are of a similar nature and subject to similar risk 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 geographical region, which is the People's Republic of China (the "PRC"). Therefore, no further segment analysis is presented.

5. TURNOVER AND OTHER REVENUE

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

An analysis of the Group's turnover and other revenue is as follows:

	2004 **HK$'000**	2003 HK$'000
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	**1,092,761**	806,232
Other revenue		
Interest income	**7,857**	3,453
Other	**848**	537
	8,705	3,990

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Notes	2004 HK$'000	2003 HK$'000
Cost of inventories sold and services provided		569,172	393,154
Depreciation	(13)	23,017	12,332
Amortisation of intangible assets*	(14)	1,380	684
Amortisation of goodwill**	(15)	5,199	2,986
Research and development costs		35,565	27,334
Minimum lease payments under operating leases in respect of land and buildings		24,075	15,770
Auditors' remuneration		1,257	750
Staff costs (excluding directors' emoluments, note 8):			
Salaries and wages		159,871	116,597
Staff welfare expenses		12,779	6,001
Pension scheme contributions#		6,519	3,055
		179,169	125,653
Provision for doubtful debts		959	7,298
Product warranty provisions	(25)	18,575	11,519
Provision for obsolete inventories		13,641	2,032
Loss on disposal of fixed assets		1,543	574

* The amortisation of intangible assets is included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.

\# As at 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

7. FINANCE COSTS

	Group 2004 HK$'000	2003 HK$'000
Interest expense on bank loans wholly repayable within one year	**7,299**	5,286
Interest on finance leases	**41**	49
Finance costs on the factored trade receivables	**2,191**	207
	9,531	5,542

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	Group 2004 HK$'000	2003 HK$'000
Fees	**440**	220
Other emoluments:		
Salaries and allowances	**7,310**	4,852
Performance related bonuses	**4,743**	5,095
Pension scheme contributions	**78**	43
	12,571	10,210

Fees of HK$440,000 (2003: HK$220,000) represented payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

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

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors 2004	2003
Nil to HK$1,000,000	3	3
HK$1,000,001 to HK$1,500,000	—	2
HK$1,500,001 to HK$2,000,000	4	1
HK$2,000,001 to HK$2,500,000	1	1
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	—	1
	9	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2003: nil).

The five highest paid employees during the year included five (2003: three) directors, details of whose remuneration are set out above.

Details of the remuneration of non-director, highest paid employees for the year are as follows:

	Group 2004 HK$'000	2003 HK$'000
Salaries, allowances and benefits in kind	—	1,781
Performance related bonuses	—	1,180
Pension scheme contributions	—	6
	—	2,967

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2004	2003
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	—	1
	—	2

9. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2003: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**—**	—
Mainland China	**6,031**	15,912
Tax charge for the year	**6,031**	15,912

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, the applicable tax rate for the Group's subsidiaries operating in the Mainland China is 15%. As approved by relevant tax authorities, certain of the subsidiaries in Mainland China are exempted from PRC corporate income tax for the two years commencing from their respective first profit-making year and thereafter are entitled to a 50% reduction in PRC corporate income tax for the subsequent three years. During the year, provisions for PRC corporate income tax for these subsidiaries have been made at the applicable reduced tax rate on the foregoing basis.

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

	2004		2003	
	HK$'000	**%**	HK$'000	%
Profit before tax	**254,243**		221,136	
Tax at the applicable rates	**38,136**	**15.0**	33,170	15.0
Expenses not deductible for tax	**7,897**	**3.1**	988	0.4
Tax exemptions	**(40,002)**	**(15.7)**	(18,246)	(8.2)
Tax charge at the Group's effective rate	**6,031**	**2.4**	15,912	7.2

The Group has tax losses arising in Hong Kong and other countries of approximately HK$39,137,000 (2003: HK$26,837,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets as at 31 December 2004.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil).

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

Notes to Financial Statements

31 December 2004

10. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK$79,258,000 (2003: 62,179,000) (note 28(b)).

11. DIVIDENDS

	2004 HK$'000	2003 HK$'000
Interim HK4 cents (2003: Nil) per share	33,291	—
Proposed final – HK5 cents (2003: HK5 cents) per share	41,637	41,500
	74,928	41,500

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

12. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

Earnings

	2004 HK$	2003 HK$
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	255,105,000	211,162,000

Shares

	Number of shares 2004	2003
Weighted average number of shares in issue during the year used in basic earnings per share calculation	830,693,000	706,000,000
Weighted average number of shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	18,700,000	5,731,000
Weighted average number of shares used in diluted earnings per share calculation	849,393,000	711,731,000

13. FIXED ASSETS

Group

	Leasehold land and 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
Cost or valuation:						
At 1 January 2004	45,319	42,527	33,041	10,060	786	131,733
Additions	3,253	37,647	13,648	1,257	11,300	67,105
Reclassification	—	6,574	(6,574)	—	—	—
Transfers	3,205	147	—	—	(3,352)	—
Disposals	(1,043)	(886)	(851)	(440)	—	(3,220)
Revaluation	(3,362)	—	—	—	—	(3,362)
Exchange realignment	(85)	(92)	(66)	(21)	—	(264)
At 31 December 2004	47,287	85,917	39,198	10,856	8,734	191,992
Analysis of cost or valuation:						
At cost	4,740	85,917	39,198	10,856	8,734	149,445
At valuation	42,547	—	—	—	—	42,547
	47,287	85,917	39,198	10,856	8,734	191,992
Accumulated depreciation:						
At 1 January 2004	132	10,514	8,860	3,996	—	23,502
Provided during the year	3,079	12,245	6,172	1,521	—	23,017
Written back on disposals	(23)	(155)	(350)	(243)	—	(771)
Written back on revaluation	(2,987)	—	—	—	—	(2,987)
Reclassification	—	2,717	(2,717)	—	—	—
Exchange realignment	—	(21)	(57)	(11)	—	(89)
At 31 December 2004	201	25,300	11,908	5,263	—	42,672
Net book value:						
At 31 December 2004	47,086	60,617	27,290	5,593	8,734	149,320
At 31 December 2003	45,187	32,013	24,181	6,064	786	108,231

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2004 amounted to HK$494,000 (2003: HK$1,008,000).

13. FIXED ASSETS (CONTINUED)

The Group's leasehold land and buildings were revalued individually at the balance sheet date, by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate open market value of HK$42,547,000 based on their existing use. Had these leasehold land and buildings stated at cost less accumulated depreciation, the amount would be approximately HK$41,557,000 as at balance sheet date. As at 31 December 2004, the Group's leasehold land and buildings have been stated at valuation, except that certain land and buildings situated in Mainland China, which are in the process of applying for the transfer of the legal title, were carried at cost with a net book value of approximately HK$4,539,000. A revaluation surplus of HK$631,000, resulting from the above valuations, has been credited to the land and building revaluation reserve and revaluation reserve released on disposal of HK$256,000 has been charged to the profit and loss account.

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

	2004	2003
	HK$'000	HK$'000
At valuation:		
Long term leases	**4,189**	4,189
Medium term leases	**38,358**	39,595
	42,547	43,784
At cost:		
Long term leases	**4,740**	1,535
	47,287	45,319

14. INTANGIBLE ASSETS

Group

	Computer software
	HK$'000
Cost:	
At 1 January 2004	4,813
Additions	1,276
Exchange realignment	(9)
At 31 December 2004	6,080
Accumulated amortisation:	
At 1 January 2004	895
Provided during the year	1,380
Exchange realignment	(2)
At 31 December 2004	2,273
Net book value:	
At 31 December 2004	3,807
At 31 December 2003	3,918

15. GOODWILL

The amount of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, is as follows:

Group

	HK$'000
Cost:	
At 1 January 2004	25,172
Acquisition of additional interest in subsidiaries	4,929
At 31 December 2004	30,101
Accumulated amortisation:	
At 1 January 2004	2,986
Amortisation provided during the year	5,199
At 31 December 2004	8,185
Net book value:	
At 31 December 2004	21,916
At 31 December 2003	22,186

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**373,108**	373,108
Due from subsidiaries	**416,423**	237,501
	789,531	610,609

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries as at 31 December 2004 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company 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 *	Mainland China	HK$39,662,469	—	100%	Manufacture and sale of wireless telecommunications coverage 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 *	Mainland China	HK$39,489,450	—	100%	Manufacture and sale of wireless telecommunications coverage 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 *	Mainland China	USD1,807,500	—	100%	Dormant
Guangzhou Telink Telecom Equipment Co., Ltd. 廣州泰聯電訊設備有限公司 *	Mainland China	HK$1,000,000	—	100%	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services
Comba Telecom Systems International Limited (formerly known as Praise Group Limited)	British Virgin Islands	US$1	—	100%	Investment holding

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	S$2	—	100%	Provision of marketing services
Cascade Technology Limited ("Cascade")	British Virgin Islands	US$1	—	100% (note (i))	Investment holding
WaveLab Holdings Limited ("WaveLab Holdings")	Cayman Islands	US$1,000	—	60% (note (i))	Investment holding
WaveLab, Inc. ("WaveLab")	State of Virginia, United States of America	No par value	—	60% (note (i))	Research and development of microwave equipment
WaveLab Asia Holdings Limited ("WaveLab Asia")	British Virgin Islands	US$1	—	60% (note (i))	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司#* ("WaveLab Guangzhou")	Mainland China	US$1,750,000	—	60% (note (i))	Sales and manufacture of digital microwave systems products
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 (formerly known as Alpha Device Technology Limited)#	British Virgin Islands	US$1	—	100%	Dormant
DigiLab Holdings Company Limited (formerly known as Allied Honour 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#*	Mainland China	HK$3,000,000	—	63%	Sales and manufacture of transmission equipment

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Right Track Technology Limited	British Virgin Islands	US$1	—	100%	Dormant
Comba Telecom Limited#	Hong Kong	HK$2	—	100%	Trading
Comba Telecom Co., Ltd.#	Thailand	980,000Baht	—	100%	Provision of marketing services
Comban Telecom Systems AB#	Sweden	100,000SEK	—	100%	Provision of marketing services

Notes:

(i) Pursuant to a subscription agreement dated 29 January 2003 (the "Subscription Agreement"), entered into between Cascade, WaveLab Holdings and the then shareholders of WaveLab Holdings, Cascade subscribed for 258 shares in WaveLab Holdings at a consideration of US$3,000,000 at the date of the Subscription Agreement and had two options (the "Options") for further subscription of: (a) 171 shares in WaveLab Holdings at a cash consideration of US$2,000,000 on or before 31 December 2003 ("Option A"); and (b) 171 shares in WaveLab Holdings at a cash consideration of US$2,000,000 on or before 31 December 2004 ("Option B"). After the subscription of the 258 shares in WaveLab Holdings, the Group effectively owned a 39.2% equity interest in WaveLab Holdings and its wholly-owned subsidiaries, WaveLab and WaveLab Asia. On 31 December 2003, Option A was exercised and the Group's effective shareholding in WaveLab Holdings and its subsidiaries was increased to 51.8%. On 11 October 2004, Option B was also exercised and the Group's effective shareholding in WaveLab Holdings and its subsidiaries was increased to 60%.

These were subsidiaries set up during the year.

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

17. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**46,129**	22,253
Project materials	**167,420**	76,097
Work in progress	**23,453**	15,390
Finished goods	**279,648**	121,661
	516,650	235,401

There were no inventories carried at net realisable value as at 31 December 2004 (2003: Nil).

18. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to 2 years depending on customer's credit worthiness. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project and is generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two year warranty period granted to customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2004	2003
	HK$'000	HK$'000
Within 3 months	**257,663**	193,703
4 to 6 months	**68,862**	48,260
7 to 12 months	**105,568**	48,506
More than 1 year	**77,536**	43,920
	509,629	334,389
Provision for doubtful debts	**(14,453)**	(13,494)
	495,176	320,895

19. OTHER RECEIVABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**29,884**	21,991	**—**	455
Deposits	**559**	343	**—**	—
Other receivables	**55,723**	17,954	**452**	1,737
	86,166	40,288	**452**	2,192

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**248,766**	302,011	**11,405**	9,600
Time deposits	**267,533**	285,000	**41,750**	208,545
	516,299	587,011	**53,155**	218,145
Less: pledged time deposits:				
- for notes issued	**—**	(11,299)	**—**	—
- for short term bank loans and undrawn facilities (note 23)	**(102,000)**	(102,000)	**(39,000)**	(39,000)
- for sales and service contract	**—**	(2,157)	**—**	—
	(102,000)	(115,456)	**(39,000)**	(39,000)
Cash and cash equivalents	**414,299**	471,555	**14,155**	179,145

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$374,700,000 (2003: HK$250,746,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. TRADE AND NOTES PAYABLES

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

	Group	
	2004	2003
	HK$'000	HK$'000
Within 3 months	**245,625**	127,561
4 to 6 months	**25,601**	6,487
7 to 12 months	**10,144**	4,276
More than 1 year	**11,039**	12,111
	292,409	150,435

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**65,295**	58,988	**1,540**	—
Deposits received	**51,304**	16,223	**—**	—
Other payables	**132,492**	63,221	**—**	—
Dividend payable	**47**	—	**47**	—
	249,138	138,432	**1,587**	—

23. SHORT TERM BANK LOANS

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loans, wholly repayable within one year:		
Secured	**138,985**	40,000
Unsecured	**18,797**	31,977
	157,782	71,977

The Group's bank loans are secured by the pledge of time deposits amounted to HK$102,000,000 (2003: HK$102,000,000) (note 20).

24. FINANCE LEASE PAYABLES

The Group acquired certain of its motor vehicles through hire purchase contracts of a financing nature. These hire purchase contracts are accounted for as finance leases. Certain finance leases were repaid during the year and the remaining finance lease has remaining lease term of two years.

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

Group

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000
Amounts repayable:				
Within one year	**200**	253	**180**	232
In the second year	**200**	200	**180**	176
In the third to fifth years, inclusive	**—**	200	**—**	168
Total minimum finance lease payments	**400**	653	**360**	576
Future finance charges	**(40)**	(77)		
Total net finance lease payables	**360**	576		
Portion classified as current liabilities	**(180)**	(232)		
Long term portion	**180**	344		

25. PROVISION FOR PRODUCT WARRANTIES

Group

	2004 HK$'000
At 1 January 2004	**11,664**
Additional provisions	**18,575**
Amounts utilised during the year	**(16,039)**
At 31 December 2004	**14,200**

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 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 provision for product warranties was not discounted as the effect of discounting was not material.

26. SHARE CAPITAL

Shares

	2004 HK$'000	2003 HK$'000
Authorised:		
5,000,000,000 (2003: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
832,728,000 (2003: 830,000,000) ordinary shares of HK$0.10 each	**83,273**	83,000

During the year, the subscription rights attaching to 2,728,000 share options were exercised at the subscription price of HK$2.25 per share (note 27), resulting in issue of 2,728,000 shares of HK$0.10 each for a total cash consideration of HK$6,138,000.

26. SHARE CAPITAL (CONTINUED)

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

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Pro forma issued share capital as at 1 January 2003	1,000	—	—	—
New issue on public listing	200,000,000	20,000	356,000	376,000
Capitalisation issue credited as fully paid by crediting the share premium account of the Company as a result of the public share issue	599,999,000	60,000	(60,000)	—
Exercise of over-allotment option on 21 July 2003	30,000,000	3,000	53,400	56,400
Share issue expenses	—	—	(36,741)	(36,741)
Issued share capital at 31 December 2003 and 1 January 2004	830,000,000	83,000	312,659	395,659
Share options exercised	2,728,000	273	5,865	6,138
At 31 December 2004	832,728,000	83,273	318,524	401,797

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

27. 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, or employees, holders of any securities, business or joint venture partners, contractors, agents or representatives, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors and customers, licencees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholders or companies controlled by a Company's controlling shareholder. The Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 14 May 2004, being the date of the last annual general meeting of the Company at which a resolution was passed to refresh the scheme mandate. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the 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 the 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 the 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 closing price of the Company's shares on the date of grant of the share options; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share.

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

27. SHARE OPTION SCHEME (CONTINUED)

Details of the share options granted, exercised or lapsed during the year are set out below:

Name or Category of participant	At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares# At grant date of options HK$	Price of Company's shares# At exercise date of options HK$
Directors:										
Mr. Chan Kai Leung, Clement	2,000,000	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
Mr. Wu Jiang Cheng	2,000,000	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
Mr. Yan Ji Ci	2,000,000	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
	6,000,000	—	—	—	6,000,000					
Other employees:										
In aggregate	34,940,000	—	(2,728,000)	(1,480,000)	30,732,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	3.78
	—	30,010,000	—	—	30,010,000	27 May 2004	27 May 2005 to 26 May 2009	3.925	3.83	n/a
	—	2,000,000***	—	—	2,000,000	7 October 2004	7 November 2004 to 6 October 2009	3.65	3.65	n/a
	34,940,000	32,010,000	(2,728,000)	(1,480,000)	62,742,000					
	40,940,000	32,010,000	(2,728,000)	(1,480,000)	68,742,000					

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

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

*** These options were granted to Mr. Yeung Pui Sang, Simon who was appointed as an executive director of the Company on 7 April 2005.

The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the year.

The 2,728,000 share options exercised during the year resulted in the issue of 2,728,000 shares of the Company and new share capital of HK$272,800 and share premium of HK$5,865,200, as detailed in note 26 to the financial statements.

27. SHARE OPTION SCHEME (CONTINUED)

At the balance sheet date, the Company had share options in respect of 68,742,000 shares outstanding under the Scheme, which represented approximately 8.3% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 68,742,000 additional shares of the Company and additional share capital of HK$6,874,200 and share premium of HK$200,862,050 (before issue expenses).

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on page 40 of the financial statements.

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

Pursuant to the relevant PRC regulations, the Group's subsidiaries established in the PRC are required to appropriate not less than 10% of their profit after tax to the statutory reserves, until the balance of statutory reserves reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulation, the statutory reserves may be used to offset against the accumulated losses, if any, of these subsidiaries.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003	—	—	—	—
Arising on group reorganisation	—	373,108	—	373,108
Issue of new shares	356,000	—	—	356,000
Capitalisation issue	(60,000)	—	—	(60,000)
Exercise of over-allotment option	53,400	—	—	53,400
Share issue expenses	(36,741)	—	—	(36,741)
Net profit for the year	—	—	62,179	62,179
Proposed final 2003 dividend	—	—	(41,500)	(41,500)
At 31 December 2003	312,659	373,108	20,679	706,446
Issue of shares	5,865	—	—	5,865
Net profit for the year	—	—	79,258	79,258
Interim 2004 dividend	—	—	(33,291)	(33,291)
Proposed final 2004 dividend	—	—	(41,637)	(41,637)
At 31 December 2004	318,524	373,108	25,009	716,641

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

29. Notes to the consolidated cash flow statement

Acquisition of subsidiaries

	2004 HK$'000	2003 HK$'000
Net assets acquired:		
Fixed assets	—	4,575
Inventories	—	54,791
Trade receivables	—	32,325
Other receivables	—	3,086
Cash and bank balances	—	20,960
Trade payables	—	(93,020)
Other payables and accruals	—	(1,508)
Minority interests	—	(19,181)
	—	2,028
Goodwill on acquisition	—	25,172
	—	27,200
Satisfied by cash	—	27,200

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

	2004 HK$'000	2003 HK$'000
Cash consideration	—	27,200
Cash and bank balances acquired	—	(20,960)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	6,240

30. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
Trade debtors factored with recourse	—	84,155	—	—
Commercial notes endorsed with recourse	13,603	—	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	157,292	—
	13,603	84,155	157,292	—

31. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**11,382**	9,241
In the second to fifth years, inclusive	**5,164**	3,509
	16,546	12,750

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments for the procurement of production facilities at the balance sheet date:

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted, but not provided for	**6,544**	4,648

33. RELATED PARTY TRANSACTIONS

The Group had no significant related party transactions during the year.

34. POST BALANCE SHEET EVENTS

No significant events took place subsequent to 31 December 2004.

35. COMPARATIVE AMOUNTS

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 15 April 2005.