NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

Comba Telecom Systems Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The head office and principal place of business of the Company is located at Units 1503-1510, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 27, 33, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

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

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. 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.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 – Derecognition of financial assets

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised , when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for the derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to the transfers of financial assets from 1 January 2005 onwards. As a result, the Group's trade and bills receivables discounted with full recourse with we derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's trade and bills receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of HK$115,296,000 have been recognised on the balance sheet date. The relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, the comparative amounts of certain other receivables have been reclassified under loans and advances and receivables for presentation purposes.

NOTES TO FINANCIAL STATEMENTS

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

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. In prior year, the fair value is determined by adoption of the Black-Scholes pricing model. The fair value of share options granted during the year is determined by adoption of binomial model.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 3 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

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

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

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

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

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets (continued)

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained earnings remains eliminated against the retained earnings and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

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

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements will not have any significant impact on the Group's financial statements in the period of initial application.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting				
At 1 January 2005 Effect of new policies (Increase/(decrease))	**HKAS 17# Prepaid land lease payments**	**HKFRS 2 Equity-settled share option arrangements**	**HKFRS 3* Discontinuation of amortisation of goodwill**	**HKASs 32 and 39*@ Derecognition of financial assets**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Property, plant and equipment	(13,327)	—	—	—	(13,327)
Prepaid land lease payments	13,041	—	—	—	13,041
Other receivables	286	—	—	—	286
					—
Liabilities/equity					
Capital reserve	—	21,042	—	—	21,042
Retained profits	—	(21,042)	—	—	(21,042)
					—

* Adjustments taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

@ In accordance with the transitional provision of HKAS 39, HKAS 39 should not be applied retrospectively. Factored trade receivables and bank advances on factored trade receivables in the amount of HK$206,767,000 respectively as at 31 December 2004 have not been restated.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Effect on the consolidated balance sheet (continued)

	Effect of adopting				
At 31 December 2005 Effect of new policies (Increase/(decrease))	HKAS 17 Prepaid land lease payments HK$'000	HKFRS 2 Equity-settled share option arrangements HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	HKASs 32 and 39 Derecognition of financial assets HK$'000	Total HK$'000
Assets					
Property, plant and equipment	(13,332)	—	—	—	(13,332)
Prepaid land lease payments	13,040	—	—	—	13,040
Goodwill	—	—	6,020	—	6,020
Factored trade receivables	—	—	—	115,296	115,296
Other receivable	292	—	—	—	292
					121,316
Liabilities/equity					
Bank advances on factored trade receivables	—	—	—	115,296	115,296
Capital reserve	—	37,938	—	—	37,938
Retained profits	—	(37,938)	6,020	—	(31,918)
					121,316

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting				
Effect of new policies (Increase/(decrease))	HKAS 17 Prepaid land lease payments HK$'000	HKFRS 2 Equity-settled share option arrangements HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	HKASs 32 and 39 Derecognition of financial assets HK$'000	Total HK$'000
1 January 2004					
Retained profits	—	(3,415)	—	—	(3,415)
					(3,415)
1 January 2005					
Retained profits	—	(21,042)	—	—	(21,042)
					(21,042)

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting				
Effect of new policies	**HKAS 17 Prepaid land lease payments**	**HKFRS 2 Equity-settled share option arrangements**	**HKFRS 3 Discontinuation of amortisation of goodwill**	**HKASs 32 and 39 Derecognition of financial assets**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005					
Increase in administrative expenses	—	(16,896)	—	—	(16,896)
Decrease in other expenses	—	—	6,020	—	6,020
Total increase/(decrease) in profit	—	(16,896)	6,020	—	(10,876)
Increase/(decrease) in basic earnings per share (HK cents)	—	(2.03)	0.72	—	(1.31)
Increase/(decrease) in diluted earnings per share (HK cents)	—	(2.01)	0.72	—	(1.29)
Year ended 31 December 2004					
Increase in administrative expenses	—	(17,627)	—	—	(17,627)
Total decrease in profit	—	(17,627)	—	—	(17,627)
Increase/(decrease) in basic earnings per share (HK cents)	—	(2.12)	—	—	(2.12)
Increase/(decrease) in diluted earnings per share (HK cents)	—	(2.07)	—	—	(2.07)

3. 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.

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

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

The 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 acquirees' identifiable assets and liabilities acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal managements purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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

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

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

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

Goodwill previously eliminated against the consolidated reserves.

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss 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 assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the assets 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 assets revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

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

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

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

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

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

Intangible assets other than goodwill

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

Computer software

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

ERP system	3 years
Computer software	5 years

Research and development costs

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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

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

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

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

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

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31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (applicable to the year ended 31 December 2005)

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

Assets carried at amortised cost

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

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

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

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

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

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

— in respect of taxable temporary differences associated with interests in subsidiaries, 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 credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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

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

Employee benefits

Pension schemes and other retirement benefits

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

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In prior year, the fair value is determined by adoption of the Black-Scholes pricing model. The fair value of share options granted during the year is determined by adoption of binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

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

Borrowing costs

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

Dividends

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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 of property, plant, and equipment

The Group tests annually whether property, plant, and equipment have suffered any impairment, in accordance with the accounting policy stated in note 3. 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was approximately HK$21,916,000 (2004: HK$21,916,000). More details are given in note 16.

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

5. SEGMENT INFORMATION

Segment information is required by HKAS 14 "Segment Reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which the Group has determined to be by business segment; and (ii) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

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 geographical region, which is the People's Republic of China (the "PRC"). Therefore, no analysis in business or geographical segment is presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

6. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	2005 HK$'000	2004 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**1,170,515**	1,092,761
Other income		
Bank interest income	**6,125**	7,857
Others	**2,726**	848
	8,851	8,705

7. PROFIT BEFORE TAX

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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold and services provided		**674,558**	510,807
Depreciation	14	**29,565**	23,017
Amortisation of intangible assets	18	**2,595**	1,380
Goodwill amortisation of the year*	16	**—**	5,199
Minimum lease payments under operating leases			
in respect of land and buildings		**28,968**	24,075
Auditors' remuneration		**2,354**	1,257
Staff costs (excluding directors' emoluments, note 9):			
Salaries and wages		**187,041**	159,871
Staff welfare expenses		**12,865**	12,779
Equity-settled share option expenses		**16,896**	17,627
Pension scheme contributions#		**15,389**	6,519
		232,191	196,796
Provision for doubtful debts		**1,713**	959
Provision for product warranties	29	**21,631**	18,575
Provision for obsolete inventories		**—**	13,641
Loss on disposal of items of property, plant, and equipment		**670**	1,543

* The amortisation of goodwill is included in "Other expenses" on the face of the consolidated income statement.

\# As at 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans wholly repayable within one year	**12,729**	7,300
Interest on finance leases	**20**	40
Finance costs on the factored trade receivables	**8,731**	2,191
	21,480	9,531

9. 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	
	2005	2004
	HK$'000	HK$'000
Fees	**440**	440
Other emoluments		
Salaries and allowances and benefits in kind	**9,343**	7,310
Performance related bonuses*	**5,375**	4,743
Employee share option benefits	**1,402**	1,164
Pension scheme contributions	**180**	78
	16,300	13,295
	16,740	13,735

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

During the year, one director has been granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been amortised to the current income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

9. 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:

	2005 HK$'000	2004 HK$'000
Mr. Yao Yan	**120**	120
Mr. Lau Siu Ki, Kevin	**120**	120
Mr. Liu Cai	**200**	200
	440	440

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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

(b) Executive directors

2005 **Executive directors:**	**Salaries, allowances and benefits in kind** **HK$'000**	**Performance related bonuses** **HK$'000**	**Employee share option benefits** **HK$'000**	**Pension scheme contributions** **HK$'000**	**Total remuneration** **HK$'000**
Mr. Fok	**1,934**	**1,149**	**—**	**12**	**3,095**
Mr. Zhang	**1,502**	**939**	**—**	**36**	**2,477**
Mr. Chan	**1,412**	**315**	**287**	**12**	**2,026**
Mr. Wu	**1,068**	**756**	**287**	**36**	**2,147**
Mr. Yan	**940**	**661**	**287**	**38**	**1,926**
Mr. Zheng	**1,344**	**—**	**—**	**37**	**1,381**
Mr. Yeung (appointed on 7 April 2005)	**1,143**	**1,555**	**541**	**9**	**3,248**
	9,343	**5,375**	**1,402**	**180**	**16,300**

2004 Executive directors:	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Mr. Fok	1,862	1,253	—	12	3,127
Mr. Zhang	1,256	865	—	22	2,143
Mr. Chan	1,171	338	388	12	1,909
Mr. Wu	741	1,198	388	22	2,349
Mr. Yan	720	933	388	10	2,051
Mr. Zheng	1,560	156	—	—	1,716
	7,310	4,743	1,164	78	13,295

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

The five highest paid employees during the year included five (2004: five) directors, details of whose remuneration are set out above.

10. TAX

No provision of Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: 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	
	2005	2004
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**—**	—
Elsewhere	**—**	—
Mainland China	**26,329**	6,031
Overseas	**304**	—
Deferred tax (note 17)	**(19,318)**	—
Total tax charge for the year	**7,315**	6,031

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

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

According to 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 the PRC corporate income tax for the two years commencing from its first profit-making year 1 January 2003 to 31 December 2004 and thereafter was entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years from 1 January 2005 to 31 December 2007.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

10. TAX (CONTINUED)

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

	2005		2004	
	HK$'000	**%**	HK$'000 (Restated)	% (Restated)
Profit before tax	**85,779**		236,616	
Tax at the applicable rate	**12,867**	**15.0**	35,492	15.0
Expenses/(income) not deductible for/ (subject to) tax	**3,698**	**4.3**	4,670	1.9
Tax losses not recognised	**9,837**	**11.5**	5,871	2.5
Tax exemptions	**(19,087)**	**(22.3)**	(40,002)	(16.9)
Tax charge at the Group's effective rate	**7,315**	**8.5**	6,031	2.5

The Group has tax losses arising in Hong Kong and other countries of HK$65,579,000 (2004: HK$39,137,000) 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 2005.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil).

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

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$39,046,000 (2004: 61,631,000 (restated)) (note 32(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	HK$'000
Interim – Nil (2004: HK4 cents) per ordinary share	—	33,291
Proposed final – HK 3 cents (2004: HK5 cents) per ordinary share	**24,991**	41,637
	24,991	74,928

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

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

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

The calculation of diluted earnings per share is based on the net 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:

	2005 HK$'000	2004 HK$'000 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**82,089**	237,478

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**832,918,000**	830,693,000
Effect of dilution – weighted average number of ordinary shares:	**8,595,000**	18,700,000
	841,513,000	849,393,000

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2004						
At 31 December 2003 and at 1 January 2004:						
Cost or valuation	31,680	42,527	33,041	10,060	786	118,094
Accumulated depreciation	(132)	(10,514)	(8,860)	(3,996)	—	(23,502)
Net carrying amount	31,548	32,013	24,181	6,064	786	94,592
At 1 January 2004, net of accumulated depreciation	31,548	32,013	24,181	6,064	786	94,592
Reclassification	—	3,857	(3,857)	—	—	—
Additions	3,253	37,647	13,648	1,257	11,300	67,105
Surplus on revaluation	(375)	—	—	—	—	(375)
Disposals	(1,020)	(731)	(501)	(197)	—	(2,449)
Provided during the year	(3,079)	(12,245)	(6,172)	(1,521)	—	(23,017)
Transfer	3,205	147	—	—	(3,352)	—
Exchange realignment	227	(71)	(9)	(10)	—	137
At 31 December 2004, net of accumulated depreciation	33,759	60,617	27,290	5,593	8,734	135,993
At 31 December 2004						
Cost or valuation	33,960	85,917	39,198	10,856	8,734	178,665
Accumulated depreciation	(201)	(25,300)	(11,908)	(5,263)	—	(42,672)
Net carrying amount	33,759	60,617	27,290	5,593	8,734	135,993

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2005 amounted to HK$303,000 (2004: HK$494,000).

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14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's leasehold land and buildings were revalued individually at the balance sheet date, by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate open market value of HK$33,562,000 based on their existing use. Had these leasehold land and buildings stated at cost less accumulated depreciation, the amount would be approximately HK$31,083,000 as at balance sheet date. As at 31 December 2005, 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$2,887,000. A revaluation surplus of HK$1,489,000, resulting from the above valuations, has been credited to the land and building revaluation reserve.

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

	2005 HK$'000	2004 HK$'000
At valuation:		
Long term leases	**3,432**	4,189
Medium term leases	**30,130**	25,031
	33,562	29,220
At cost:		
Long term leases	**3,679**	4,740
	37,241	33,960

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Carrying amount at 1 January		
As previously reported	**—**	—
Effect of adopting HKAS 17 (note 2.2(a))	**13,327**	13,639
As restated:		
Recognised during the year	**(292)**	(286)
Exchange realignment	**297**	(26)
Carrying amount at 31 December	**13,332**	13,327
Current portion included in prepayments, deposits and other receivables	**(292)**	(286)
Non-current portion	**13,040**	13,041

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

16. GOODWILL

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

Group	HK$'000
At 1 January 2005:	
Cost as previously reported	30,101
Effect of adopting HKFRS 3 (note 2.2(d))	(8,185)
Cost as restated	21,916
Accumulated amortisation and impairment as previously reported	(8,185)
Effect of adopting HKFRS 3 (note 2.2(d))	8,185
Accumulated amortisation and impairment as restated	—
Net carrying amount	21,916
Cost at 1 January 2005, net of accumulated impairment	21,916
Impairment during the year	—
Cost and carrying amount at 31 December 2005	21,916
At 31 December 2005:	
Cost	21,916
Accumulated impairment	—
Net carrying amount	21,916
At 1 January 2004:	
Cost	25,172
Accumulated amortisation and impairment	(2,986)
Net carrying amount	22,186
Cost at 1 January 2004, net of accumulated impairment	22,186
Acquisition of additional interests in subsidiaries	4,929
Amortisation provided during the year	(5,199)
Impairment during the year	—
At 31 December 2004	21,916
At 31 December 2004:	
Cost	30,101
Accumulated amortisation and impairment	(8,185)
Net carrying amount	21,916

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16. GOODWILL (CONTINUED)

For the purposes of impairment reviews, 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 five-year period approved by management. There are a number of assumptions and estimates involved in the preparation of the cash flow projections for the period of five years covered by the approved budget. Key assumptions include the expected growth in revenue and profit margin, and discount rates used to reflect the risks involved. Management prepared the financial budgets reflecting industry development expectations. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

17. DEFERRED TAX ASSETS

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

	Group	
	2005	2004
	HK$'000	HK$'000
Deferred tax assets:		
At beginning of year	**—**	—
Deferred tax credited to the income statement during the year (note 10)	**19,318**	—
At end of year	**19,318**	—
Deferred tax assets:		
Unrealised profit arising on consolidation	**19,318**	—

18. OTHER INTANGIBLE ASSETS

Group	**Computer software**
	HK$'000
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation:	3,807
Additions	6,952
Provided during the year	(2,595)
Exchange realignment	78
At 31 December 2005	**8,242**
At 31 December 2005:	
Cost	13,161
Accumulated amortisation	(4,919)
Net carrying amount	8,242
31 December 2004	
At 1 January 2004	
Cost	4,813
Accumulated amortisation	(895)
Net carrying amount	3,918
Cost at 1 January 2004, net of accumulated amortisation	3,918
Additions	1,276
Provided during the year	(1,380)
Exchange realignment	(7)
At 31 December 2004	3,807
At 31 December 2004 and at 1 January 2005:	
Cost	6,080
Accumulated amortisation	(2,273)
Net carrying amount	3,807

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19. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**373,108**	373,108
Due from subsidiaries	**481,256**	416,423
	854,364	789,531

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

Particulars of subsidiaries 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 *	PRC/ Mainland China	HK$44,300,710	—	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services

19. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of subsidiaries are as follows: (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		Principal activities
			Direct	Indirect	
Comba Telecom Technology (Guangzhou) Limited 京信通信技術（廣州）有限公司 *	PRC/ Mainland China	HK$61,323,565	—	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	USD6,619,994	—	100	Dormant
Guangzhou Telink Telecom Equipment Co., Ltd. 廣州泰聯電訊設備有限公司 *	PRC/ Mainland China	HK$1,000,000	—	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Telecom Systems International Limited	British Virgin Islands	US$1	—	100	Investment holding
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	S$2	—	100	Provision of support and services
Cascade Technology Limited	British Virgin Islands	US$1	—	100	Investment holding

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19. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of subsidiaries are as follows: (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
WaveLab Holdings Limited	Cayman Islands	US$1,000	—	60	Investment holding
WaveLab, Inc.,	State of Virginia/ United States of America	No par value	—	60	Research and development of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US$1	—	60	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司	Mainland China	US$1,750,000	—	60	Sale and manufacture of digital microwave system equipment
Honour Mission Group Limited	British Virgin Islands	US$1	—	100	Investment holding
Team Victory Limited	British Virgin Islands	US$1	—	100	Investment holding
Telink Telecom Holdings Limited	British Virgin Islands	US$1	—	100	Dormant
Telink Telecom (China) Limited 泰聯電訊（中國）有限公司#*	PRC/ Mainland China	HK$15,000,000	—	100	Sale and manufacture of telecommunication network enhancement system equipment

19. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of subsidiaries are as follows: (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		Principal activities
			Direct	Indirect	
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 *	Mainland China	HK$5,000,000	—	63	Sale and manufacture of transmission equipment
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	Baht 980,000	—	100	Provision of marketing services
Comban Telecom Systems AB	Sweden	SEK100,000	—	100	Provision of marketing services
Noblefield International Limited#	British Virgin Islands	US$1	—	100	Investment holding
Comba Telecom Inc.#	United States of America	US$1	—	100	Research and development

Notes:

\# These were subsidiaries set up during the year.

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

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20. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	55,402	46,129
Project materials	166,577	167,420
Work in progress	42,319	23,453
Finished goods	308,650	279,648
	572,948	516,650

21. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on 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 the credit risk. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	285,631	257,663
4 to 6 months	70,400	68,862
7 to 12 months	87,967	105,568
More than 1 year	188,750	77,536
	632,748	509,629
Provision for impairment	(14,458)	(14,453)
	618,290	495,176

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

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Prepayments	**34,893**	29,884	**—**	—
Deposits	**156**	559	**—**	—
Other receivables	**77,758**	56,009	**63**	452
	112,807	86,452	**63**	452

24. CASH AND CASH EQUIVALENTS AND SHORT TERM TIME DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**312,501**	248,766	**2,410**	11,405
Time deposits	**179,913**	267,533	**1,617**	41,750
	492,414	516,299	**4,027**	53,155
Less: Pledged time deposits for short term bank loans and undrawn facilities (note 27(a))	**(63,000)**	(102,000)	**—**	(39,000)
Non-pledged short term time deposits with original maturity of over three months	**(115,296)**	(165,533)	**—**	(2,750)
	(178,296)	(267,533)	**—**	(41,750)
Cash and cash equivalents	**314,118**	248,766	**4,027**	11,405

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24. CASH AND CASH EQUIVALENTS AND SHORT TERM TIME DEPOSITS (CONTINUED)

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$403,972,759 (2004: HK$374,700,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

25. TRADE AND BILLS PAYABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**279,504**	245,625
4 to 6 months	**45,472**	25,601
7 to 12 months	**13,674**	10,144
More than 1 year	**18,103**	11,039
	356,753	292,409

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**68,842**	65,295	**1,940**	1,540
Deposits received	**97,230**	51,304	**—**	—
Other payables	**117,964**	132,492	**19**	—
Dividend payable	**—**	47	**—**	47
	284,036	249,138	**1,959**	1,587

27. INTEREST-BEARING BANK LOANS

	Group	
	2005	2004
	HK$'000	HK$'000
Bank loans, wholly repayable within one year:		
Secured	**39,759**	138,985
Unsecured	**150,964**	18,797
	190,723	157,782

Notes:

(a) The Group's bank loans are secured by the pledge of time deposits amounting to HK$63,000,000 (2004: HK$102,000,000) (note 24).

(b) At 31 December 2005, United States dollars denominated loans are HK$18,720,000, RMB denominated loans are HK$141,852,421 and Hong Kong dollars denominated loans are HK$30,150,525.

(c) The bank loans bear interest at rates ranging from 0.94% to 5.86% (2004: from 0.7% to 5.58%) per annum.

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28. FINANCE LEASE PAYABLES

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

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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts repayable:				
Within one year	**200**	200	**180**	180
In the second year	**—**	200	**—**	180
Total minimum finance lease payments	**200**	400	**180**	360
Future finance charges	**(20)**	(40)		
Total net finance lease payables	**180**	360		
Portion classified as current liabilities	**(180)**	(180)		
Long term portion	**—**	180		

29. PROVISION FOR PRODUCT WARRANTIES

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of the year	**14,200**	11,664
Additional provisions	**21,631**	18,575
Amounts utilised during the year	**(15,343)**	(16,039)
Exchange realignment	**578**	—
At end of year	**21,066**	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 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 provision for product warranties was not discounted as the effect of discounting was not material.

30. SHARE CAPITAL

	Group	
Shares	**2005 HK$'000**	2004 HK$'000
Authorised:		
5,000,000,000 (2004: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
833,018,000 (2004: 832,728,000) ordinary shares of HK$0.10 each	**83,302**	83,273

During the year, the subscription rights attaching to 290,000 share options were exercised at the subscription price of HK$2.25 per share (note 31), resulting in issue of 290,000 shares of HK$0.10 each for a total cash consideration of HK$652,500.

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

	Number of shares in issue	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
Issued share capital at 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 and 1 January 2005	832,728,000	83,273	318,524	401,797
Share options exercised	290,000	29	624	653
At 31 December 2005	**833,018,000**	**83,302**	**319,148**	**402,450**

Share options

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

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31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors, including independent non-executive directors, 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 at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of 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 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 the 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 the offer, if the option is granted in five business days (including the Listing Date) after offer.

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

31. SHARE OPTION SCHEME (CONTINUED)

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

Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2005	Date of grant of share options *	Exercise period of share options	Exercise price of share options**	Price of Company's shares*** At grant date of options	Price of Company's shares*** Immediately before the exercise date	Price of Company's shares*** At exercise date of options
									HK$	HK$	HK$	HK$
Directors:												
Mr. Chan	2,000,000	–	–	–	–	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	N/A	N/A	N/A
Mr. Wu	2,000,000	–	–	–	–	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	N/A	N/A	N/A
Mr. Yan	2,000,000	–	–	–	–	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	N/A	N/A	N/A
Mr. Yeung	2,000,000	–	–	–	–	2,000,000	7 October 2004	7 November 2004 to 6 October 2009	3.65	N/A	N/A	N/A
Mr. Yeung	–	2,000,000	–	–	–	2,000,000	22 December 2005	22 December 2006 to 21 December 2010	2.625	2.45	N/A	N/A
	8,000,000	2,000,000	–	–	–	10,000,000						
Other employees:												
In aggregate	30,732,000	–	(290,000)	–	(1,714,000)	28,728,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	N/A	3.21	3.20
	30,010,000	–	–	–	(3,920,000)	26,090,000	27 May 2004	27 May 2005 to 26 May 2009	3.925	N/A	N/A	N/A
	–	15,786,000	–	–	–	15,786,000	22 December 2005	22 December 2006 to 21 December 2010	2.625	2.45	N/A	N/A
	60,742,000	15,786,000	(290,000)	–	(5,634,000)	70,604,000						
	68,742,000	17,786,000	(290,000)	–	(5,634,000)	80,604,000						

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31. SHARE OPTION SCHEME (CONTINUED)

Notes to the reconciliation of share options outstanding during the year

* 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.

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

The 290,000 share options exercised during the year resulted in the issue of 290,000 ordinary shares of the Company and new share capital of HK$29,000 and share premium of HK$624,000, as detailed in note 30 to the financial statements.

At the balance sheet date, the Company had 80,604,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 80,604,000 additional ordinary shares of the Company and additional share capital of HK$8,060,400 and share premium of HK$226,469,100 (before issue expenses).

Subsequent to the balance sheet date, no share option was granted to any of the employees.

At the date of approval of these financial statements, the Company had 77,580,000 share options outstanding under the Scheme, which represented approximately 9.29% of the Company's shares in issue as at that date.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on pages 42 and 43 of the financial statements.

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

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

32. RESERVES (CONTINUED)

(b) Company

	Share premium account HK$'000	Contributed surplus* HK$'000	Share option reserve HK$'000 (Restated)	Retained profits HK$'000 (Restated)	Total HK$'000
At 1 January 2004	312,659	373,108	3,415	17,264	706,446
Issue of shares	5,865	—	—	—	5,865
Interim 2004 dividend	—	—	—	(33,291)	(33,291)
Net profit for the year	—	—	—	61,631	61,631
Equity-settled share option arrangements	—	—	17,627	—	17,627
Proposed final 2004 dividend	—	—	—	(41,637)	(41,637)
At 31 December 2004	318,524	373,108	21,042	3,967	716,641
Issue of shares	624	—	—		624
Net profit for the year	—	—	—	39,046	39,046
Equity-settled share option arrangements	—	—	16,896	—	16,896
Under provision of 2004 final dividend	—	—	—	(14)	(14)
Proposed final 2005 dividend	—	—	—	(24,991)	(24,991)
At 31 December 2005	319,148	373,108	37,938	18,008	748,202

* 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.

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33. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commercial note endorsed with recourse	**—**	13,603	**—**	—
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**120,930**	157,292
	—	13,603	**120,930**	157,292

As at 31 December 2005, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$68,720,000 (2004: HK$35,000,000).

34 OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**11,353**	11,382	**—**	—
In the second to fifth years, inclusive	**3,156**	5,164	**—**	—
	14,509	16,546	**—**	—

35. COMMITMENTS

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted, but not provided for:				
Land and buildings	**12,860**	4,006	**—**	—
Plant and machinery	**30,939**	2,538	**—**	—

36. RELATED PARTY TRANSACTIONS

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

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

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Short term employee benefits	**15,158**	12,493
Post-employment benefits	**180**	78
Share-based payments	**1,402**	1,164
Total compensation paid to key management personnel	**16,740**	13,735

Further details of directors' emoluments are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Cash flow interest rate risk

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

Foreign currency risk

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

Credit risk

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

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

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

Liquidity risk

The Group does not have any significant exposure to liquidity risk as the Group was in a net current asset position as at 31 December 2005.

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.

38. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

On the other hand, research and development costs and certain expenses of the Group's branch offices in the PRC were included in cost of sales in the past. As the Group has expanded its research and development capabilities significantly during the year, it is more meaningful to show the research and development costs separately in the consolidated income statement. In addition, as the Group's branch offices in the PRC are expanding and are currently carrying out more management functions, such expenses were included in the administrative expenses in the consolidated income statement for better presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.