Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The principal changes in accounting policies are as follows:

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

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

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

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

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

(i) Amendment for financial guarantee contracts

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

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

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

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

(ii) Amendment for the fair value option

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

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

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

Goodwill previously eliminated against consolidated retained profits

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

Impairment of non-financial assets other than goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

Notes to Financial Statements
31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

Computer software

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

ERP system	3 years
Computer software	5 to 10 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Research and development costs

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

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

Leases

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

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

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

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

Investments and other financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

Financial guarantee contracts

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

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

Employee benefits

Pension schemes and other retirement benefits

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

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

Share-based payment transactions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

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

Borrowing costs

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

Dividends

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

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

Impairment allowances for trade and other receivables

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

Impairment of property, plant, and equipment

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

3. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of goodwill

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

Provisions for product warranties

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

Fair values

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

4. SEGMENT INFORMATION

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

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

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

5. REVENUE, OTHER INCOME AND GAIN

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

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

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

6. PROFIT BEFORE TAX

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

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

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

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

(a) Independent non-executive directors

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

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

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

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

(b) Executive directors

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

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

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

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

(c) Five highest paid employees

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

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

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

9. TAX

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

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

9. TAX (CONTINUED)

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

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

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

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

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

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

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

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

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

11. DIVIDEND

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

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

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

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

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

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

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

Notes to Financial Statements
31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT

Group

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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

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

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

Notes to Financial Statements
31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

14. PREPAID LAND LEASE PAYMENTS

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

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

15. GOODWILL

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

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

Impairment testing of goodwill

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

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

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

16. DEFERRED TAX ASSETS

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

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

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

17. OTHER INTANGIBLE ASSETS

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

18. INTERESTS IN SUBSIDIARIES

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

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	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$45,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

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

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

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

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

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

Notes:

These subsidiaries were set up during the year.

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

19. INVENTORIES

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

20. TRADE RECEIVABLES

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

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

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

21. NOTES RECEIVABLE

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

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

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

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

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

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

25. TRADE AND BILLS PAYABLES

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

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

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

26. OTHER PAYABLES AND ACCRUALS

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

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

27. INTEREST-BEARING BANK LOANS

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

Notes to Financial Statements
31 December 2006

27. INTEREST-BEARING BANK LOANS (CONTINUED)

Notes:

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

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

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

28. FINANCE LEASE PAYABLES

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

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

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

29. PROVISIONS FOR PRODUCT WARRANTIES

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

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

30. SHARE CAPITAL

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

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

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30. SHARE CAPITAL (CONTINUED)

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

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

Share options

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

31. SHARE OPTION SCHEME

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

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

31. SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

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31. SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

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

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

31. SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

32. RESERVES

(a) Group

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

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

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

32. RESERVES (CONTINUED)

(b) Company

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

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

33. CONTINGENT LIABILITIES

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

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

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

34. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

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

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35. COMMITMENTS

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

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

36. RELATED PARTY TRANSACTIONS

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

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

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

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Cash flow interest rate risk

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

Foreign currency risk

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

Credit risk

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

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

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

Liquidity risk

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

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

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