京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited
股份編號 Stock Code : 2342

INNOVATIVE SOLUTIONS

年報 Annual Report 2008

Comba Telecom Systems Holdings Limited

Contents

Corporate Information

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Lau Siu Ki, Kevin
Yao Yan
Liu Cai

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Fok Tung Ling
Tong Chak Wai, Wilson

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Industrial and Commercial Bank of China Limited
GETD District Sub-branch
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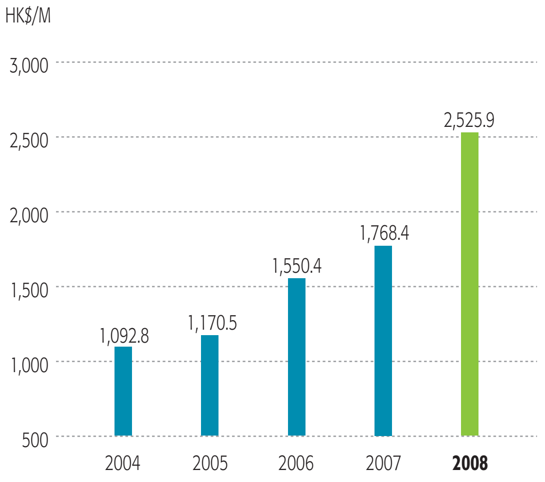
Guangzhou, PRC

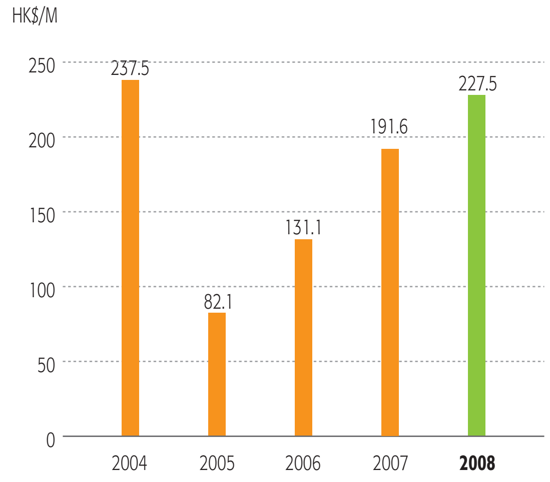
China Merchants Bank Co., Ltd.
Guangdong Branch Gaoxin Sub-branch
1 Huajing Road, 1st Floor, Southern Communication Plaza
Guangzhou, PRC

Financial Summary

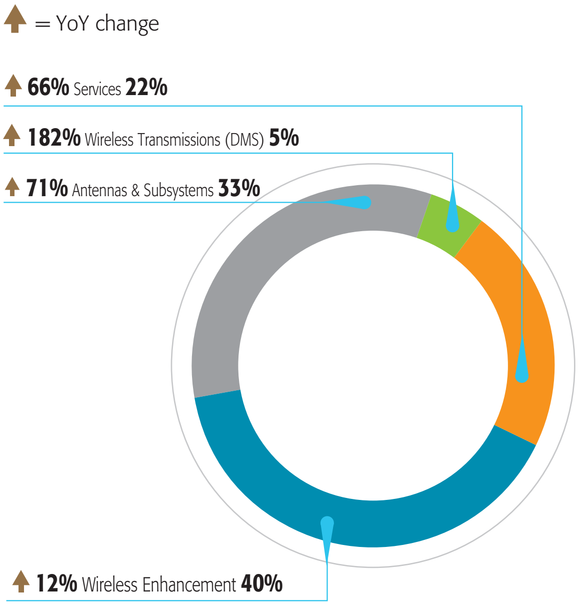
Revenue



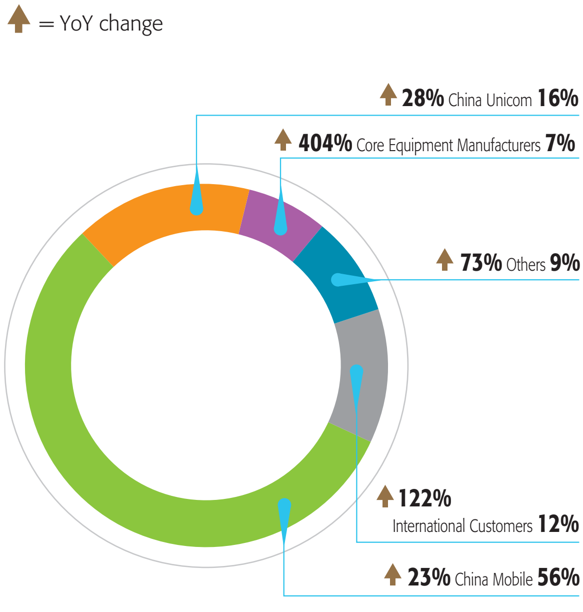
Profit Attributable to Shareholders



Revenue breakdown by businesses



Revenue breakdown by customers



FINANCIAL SUMMARY

For the year ended 31 December	2008 HK$'000	2007 HK$'000	Change
Revenue	**2,525,895**	1,768,418	+42.8%
Gross profit	**946,034**	681,257	+38.9%
Operating profit	**273,387**	205,737	+32.9%
Profit attributable to shareholders	**227,512**	191,619	+18.7%
Basic EPS (HK cents)	**26.68**	22.56	+18.3%
Final dividend per share (HK cents)	**7.0**	6.0	+16.7%
Bonus issue of shares	**1 for 10**	Nil	N/A
Operating cash flow	**215,269**	(53,368)	N/A

KEY FINANCIAL FIGURES

As at 31 December	2008 HK$'000	2007 HK$'000
Total assets	**3,452,397**	2,759,342
Net assets	**1,974,539**	1,698,256
Net assets value per share (HK dollars)	**2.33**	1.99
Cash and bank balances	**473,424**	380,362
Current ratio	**2.0X**	2.2X
A/R turnover days	**171**	200
A/P turnover days	**170**	176
Inventory turnover days	**209**	230
Return on average equity	**12.4%**	12.4%
Gearing ratio	**1.5%**	3.2%

Corporate Milestone 2008

In February, Comba has the honour to become the recipient of the first batch of "License for antenna products of mobile communications base stations" issued by the TLC of the China Academy of Telecommunication Research of the Ministry of Information Industry.

In April, Tower Bottom Solution (TBS) jointly developed by Comba R&D teams in the PRC and the USA. The TBS targets US mobile operators and core equipment vendors and features MCPA technology to increase the range and coverage area of base stations.

A token received from China Mobile for helping earthquake victims

Technology breakthrough attained in the all-in-one process of antenna of TD-SCDMA multi-channel GRRU.

The Company was the first to launch the dual-polarized variable electrical tilt smart antenna in the industry.

Products including the dual bandwidth variable electrical tilt antennas received recognitions from various globally renowned and major equipment suppliers and communications operators.

Vodafone certifies Comba 'Approved Supplier' in the Vodafone Global Supply Management program. Approved Supplier status is granted according to criteria of manufacturing, quality, human resources, distribution, R&D and financial standard. This allows Comba to take part in Vodafine tenders around the world.

Successfully developed the WiMAX RRU products.

Multi-standard and multi-channel RRU products achieved technology breakthrough and were produced in large-scale.

The test site in Lanzhou, Gansu province

The test site in Shengli Daban, Xinjiang province

The Company launched the energy-saving erect station which was successfully applied in Gansu and Xinjiang provinces.

Rushing relief to Beichuan

In May, Comba participated in the emergent repair of the communications equipment immediately after the 5.12 Wenchuan Earthquake broke out. Comba has also participated in restoring communications services in the areas severely hit by the earthquake including Beichuan, Wenchuan, Shifang, Mianzhu and Dujiangyan, and therefore received acknowledgment and credit from the China Mobile Communications Corporation.

In May, Comba received an order of 40,000 units of TMA from Reliance Communications, the largest integrated provider for communications services in India, which is the largest single order of the Group ever recorded.

In the middle of the year, Comba completed the coverage project in Kao Hsiung Mass Rapid Transit in Taiwan, which marked the first successful case of the Group in promoting its high-end products to Taiwan railway system.

To meet the growing needs of production, the Group duly launched the logistic warehouse and manufacturing buildings project in the global manufacturing base in Guangzhou development zone (Phase III) during the year.

In October, Comba launched next generation wireless backhaul solution to global market. The Comba microwave IP radio set provides ISPs and mobile operators with cellular backhaul services for high-capacity native ethernet at 100mbps as well as legacy TDM.

In August, Comba successfully launched the wireless coverage project for Beijing-Tianjin Intercity Rail. The world-class network coverage solution for high-speed railways flawlessly solved the problem concerning the mobile coverage of high-speed railways, proving once again the advanced technology and service standard of the Group.

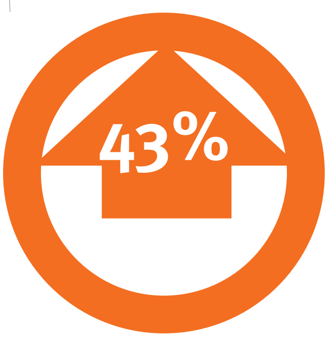
A brand-new solution: microwave separation system. The solution is outstanding in coverage and is not restricted by optic fibers. It can be used to set up a station in an efficient and effective manner, and is thus cost-effective.

In 2008, Comba won the contracts of communications establishment projects for over 20 Olympic venues including the Bird's Nest (Beijing National Stadium) and the Water Cube (National Aquatics Center), and completed its task to secure communications during the Olympic period in an outstanding fashion.

Chairman's Statement

In 2008, Comba continued to develop its innovative technology, introduced new products as well as a series of high-value creative solutions, and insisted on strengthening its relationship with the customers. With such ceaseless efforts, Comba was able to achieve a remarkable growth in its results for the year and set a new record of revenue.

Fok Tung Ling
Chairman and President



HK$2,525,895,000
Revenue

On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries ("Comba" or the "Group") for the year ended 31 December 2008 (the "Current Year").

In 2008, Comba continued to develop its innovative technology, introduced new products as well as a series of high-value creative solutions, and insisted on strengthening its relationship with the customers. With such ceaseless efforts, Comba was able to achieve a remarkable growth in its results for the year and set a new record of revenue. During the Current Year, the Group's revenue increased substantially by 42.8% over the Prior Year to HK$2,525,895,000. Profits attributable to the shareholders grew by 18.7% over the Prior Year to HK$227,512,000. The board of directors of the Company (the "Board") recommended to distribute a final dividend for the Current Year of HK7 cents per share. In addition, 1 new bonus ordinary share of HK10 cents will be issued for every 10 ordinary shares held.

2008 marked an extraordinary year for the development of Comba. At the beginning of the year, a severe snowstorm hit Southern China and transport has been halted altogether subsequently. In May 2008, an earthquake with a magnitude of 8 struck Sichuan Province, the PRC, leaving more than 100,000 people injured or dead. The Group promptly repaired the telecommunications equipment in collaboration with the telecommunications operators after the occurrence of these natural disasters in order to ensure that the mobile communications network in the disaster areas was restored as soon as possible.

Chairman's Statement

Meanwhile, the Group capitalized on the opportunities brought by the 2008 Olympics Games, providing solutions for indoor mobile communications networks coverage in several Olympic venues such as the National Stadium and National Swimming Center in Beijing, and completed the wireless enhancement solution for Beijing Tianjin High Speed Railway. With our experience in establishing communication systems for railways and our relevant innovative technologies, the Group has overcome various difficulties in providing mobile communication network coverage along high speed railways by applying a network solution specially designed for these railways, and thus effectively enhanced the quality of data transfer. High praise from our customers has helped us obtain massive orders for the provision of network coverage for high speed railways.

In 2008, substantial growth was recorded across all the Group's four major business segments, namely wireless enhancement, antennas and subsystems, wireless transmissions – digital microwave systems ("DMS") and relevant technical services. The antennas and subsystems business unit recorded a remarkable growth of 70.7%, becoming the second major source of revenue of the Group. A satisfactory performance has been attained in the wireless enhancement business, which has benefited from increasing domestic and overseas investments in 2G and 3G networks. Furthermore, income from DMS more than doubled. Relevant technical services have also generated double income as the business's coverage and scope have both expanded.

With satisfactory result in its TD-SCDMA ("TD") trials and years of experience in developing WCDMA and CDMA products in overseas markets, the Group is well equipped to roll out 3G networks in the PRC, and has captured a certain amount of market share in 3G wireless enhancement projects in the PRC during the year.

During the Current Year, reorganization of the domestic mobile operators has been successfully completed. Comba enhanced its cooperation with the three largest mobile operators in the PRC (the "Three Major Operators"), namely China Mobile Communications Corporation and its subsidiaries (the "China Mobile Group"), China United Network Communications Corporation Limited and its subsidiaries (the "China Unicom Group") and China Telecommunications Corporation and its subsidiaries (the "China Telecom Group"). In addition to the provision of quality products and cost-effective, innovative solutions, we also offered services with higher value (including network enhancement services) to the Three Major Operators, by which the partnership between us and the Three Major Operators has been further strengthened.

Three 3G licenses were issued in the PRC in January 2009, and the Three Major Operators have decided to increase their respective investments in wireless network coverage. Since the Group has entered into several contracts in respect of large-scale 3G projects, it is expanding its production capacity in order to meet the increasing demand for relevant products. The Group believes that 3G projects will become one of the major sources of income for Comba in the coming years.

During the year under review, development in international business was encouraging with a substantial increase in revenue generated from developing countries and emerging markets. In 2008, the Group secured an order for subsystems equipment amounted to over HK$100 million from Reliance Communications, a major mobile operator in India. Moreover, the Group has been successfully certified as an approved supplier by several leading international mobile operators such as Vodafone Electronics through passing their quality examinations.

With its strength in products quality and cost-effectiveness, the Group has received a number of bulk purchase orders from various well-known core equipment manufacturers, resulting in a triple-digit growth in revenue from core equipment manufacturers. We expect to manage a sustainable growth in the future.

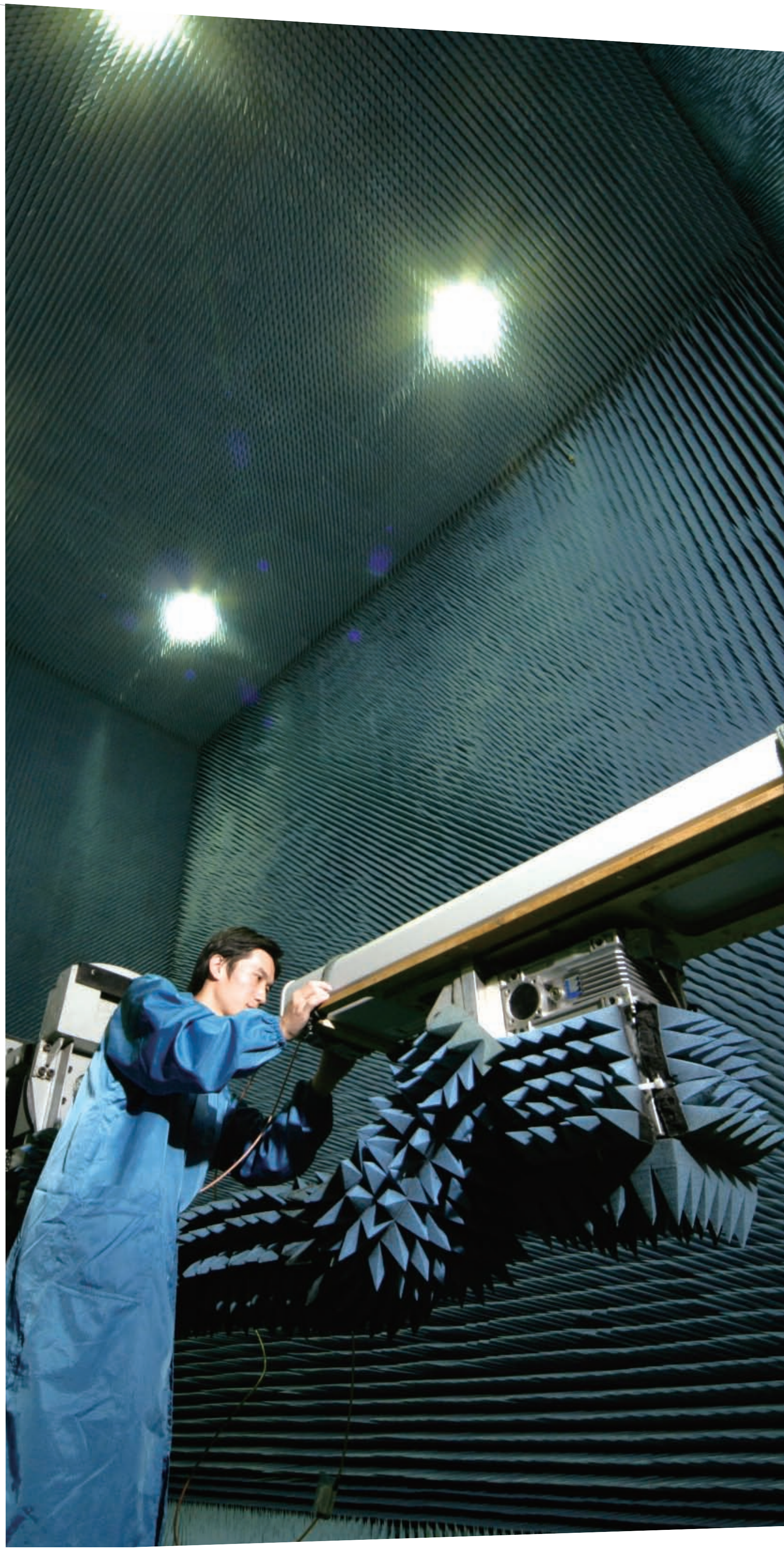
Looking forward, Comba will develop both the domestic and overseas markets. In respect of the domestic market, demand for wireless enhancement services has increased substantially due to the accelerated urbanization of rural areas in the PRC, which created the need for improvement in both network coverage and quality. The growth in demand for wireless enhancement was also attributable to an increase in the number of mobile operators and large-scale 3G networks rollout projects. The Group will actively seize the available business opportunities to increase its market infiltration. Globally speaking, the Group will establish branches in, and actively enter into, major regions such as the emerging markets in the Middle East and the Central and Southern Americas that show enormous development potential. In the meantime, the Group will strengthen its cooperation with the core equipment manufacturers with a view to enhancing the Group's position in the international market.

To mitigate the economic effect brought by the global financial tsunami, the Group will also closely monitor market developments and adjust its development strategy accordingly in order to manage its operating risks and achieve stable growth. We are optimistic about the future of Comba and strongly believe that Comba's long-term development will be fruitful with its solid business foundation, leading domestic market position, constant strength in product and solution innovation as well as its comprehensive global network.

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

Fok Tung Ling
Chairman and President
Hong Kong, 27 March 2009

Management Discussion and Analysis



Net Assets

HK$1,974,539,000

16%

19%

HK$227,512,000

Net Profit

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2008 (the "Current Year") was HK$2,525,895,000, representing a sharp increase of 42.8% over the revenue for the year ended 31 December 2007 (the "Prior Year") (HK$1,768,418,000). The increase was due to the strong growth of both PRC and international sales.

During the Current Year, the Group benefitted from the restructuring of the telecommunications industry and the issuance of the 3G mobile licenses in the PRC and the maturing global sales networks.

By customers

Revenue generated from the PRC market (including sales to core equipment manufacturers) increased significantly by 36.2% to HK$2,222,644,000 (2007: HK$1,631,902,000) and accounted for 88.0% of the Group's revenue in the Current Year compared to 92.3% in the Prior Year. The increase in revenue from the PRC market was primarily due to the increase in the provision of services and sales of equipment and solutions to China Mobile Group, China Unicom Group, Huawei Technologies Co., Ltd. ("Huawei"), and ZTE Corporation ("ZTE"). The increase in services includes consultation, commissioning, and after-sales maintenance, and the increase on sales of equipment and solutions include all 3 business segments, namely wireless enhancement, antennas and subsystems, and wireless transmission.

During the Current Year, the revenue generated from TD-SCDMA increased significantly by 51.3% to HK$121,000,000 (2007: HK$80,000,000) and accounted for 4.8% of the Group's revenue in the Current Year, compared to 4.5% in the Prior Year.

International sales increased also significantly by 122.1% to HK$303,251,000 (2007: HK$136,516,000) and accounted for 12.0% of the Group's revenue in the Current Year compared to 7.7% in the Prior Year. The growth was attributed to significant inroads into mobile operators in the Americas and the Indian subcontinent markets.

By businesses

Revenue generated from the wireless enhancement business in the Current Year increased by 11.7% to HK$1,000,603,000 (2007: HK$895,908,000) and accounted for 39.6% of the Group's revenue in the Current Year compared to 50.6% in the Prior Year.

Revenue generated from the antennas and subsystems business in the Current Year increased significantly by 70.7% to HK$843,385,000 (2007: HK$493,946,000) and accounted for 33.4% of the Group's revenue in the Current Year compared to 27.9% in the Prior Year. The growth in revenue was mainly due to an increase in sales of base transceiver station ("BTS") antennas, camouflaged antennas, and tower mounted amplifiers.

Revenue generated from the wireless transmission business also increased significantly by 182.0% to HK$132,296,000 (2007: HK$46,907,000) and accounted for 5.2% of the Group's revenue in the Current Year compared to 2.7% in the Prior Year.

Revenue from services, including consultation, commissioning, network optimization, project management, and after-sales maintenance services, increased significantly by 65.7% to HK$549,611,000 (2007: HK$331,657,000) and accounted for 21.8% of the Group's revenue in the Current Year compared to 18.8% in the Prior Year. The increase in revenue from services was from installation services, network enhancement services, and after-sales maintenance services on more equipment and larger coverage area. The Group has placed a tremendous amount of effort on adding value to the existing product lines and garnered positive feedback from customers.

Gross profit

In view of the continuing pressure on average selling prices for the maturing 2G mobile telecommunications market in the PRC, the Group's gross profit margin was 37.5% in the Current Year, compared with 38.5% in the Prior Year. During the Current Year, the gross profit increased by 38.9% to HK$946,034,000 (2007: HK$681,257,000), compared with the Prior Year.

During the Current Year, the Group has implemented various cost control measures including streamlining the manufacturing processes, optimizing product design through advanced research and development technology, improving logistic management, and negotiating with suppliers for more favorable pricing and payment terms. The Group has also continuously expanded its market coverage and broadened its

revenue sources to achieve economies of scale. The Group has provided installation, network enhancement and after-sales maintenance services to customers in order to achieve higher product sales. In order to maintain a reasonable gross profit margin, the Group will continue to focus on developing advanced products with high value to customers.

Research and development costs

During the Current Year, research and development ("R&D") costs increased by 45.2% to HK$132,253,000 (2007: HK$91,087,000), representing 5.2% (2007: 5.2%) of the Group's revenue. The increase in R&D costs was mainly due to the following reasons: 1. heavy investments in expanding our product portfolio for the global markets and the continuous development of new 3G products to capture the huge global, especially the PRC, 3G mobile network buildout business opportunities; 2. streamlining manufacturing processes for higher operating efficiencies.

representing 7.4% (2007: 7.6%) of the Group's revenue. The increase in selling and distribution costs was mainly due to increases in sales staff salaries, consulting fee and travelling expenses as a consequence of increasing the Group's revenue.

The telecommunications industry relies heavily on R&D for new products and advanced technology. R&D is one of the most important continuous success factors of the Group. To maintain industry leadership, the Group has to maintain a considerable R&D team at the current level. With its continuous investment in R&D, the Group has achieved significant accomplishment in intellectual property rights, having applied for over 420 patents as at the end of the Current Year.

Selling and distribution costs

During the Current Year, selling and distribution costs increased by 37.7% to HK$185,811,000 (2007: HK$134,953,000),

Administrative expenses

During the Current Year, administrative expenses increased by 36.2% to HK$370,112,000 (2007: HK$271,712,000), representing 14.7% (2007: 15.4%) of the Group's revenue. The increase in administrative expenses was mainly due to increases in administration staff salaries and allowances, rental expenses, exchange losses, and office expenses. During the Current Year, an exchange loss of HK$11,546,000 was recorded due to the devaluation of the Brazilian currency, which is one of our billing currencies. The Group has taken stricter monetary policy to tighten the control on foreign currency and minimize to use other than Reminbi, Hong Kong dollars, and United States dollars as the billing currency.

Finance costs

During the Current Year, finance costs increased by 68.1% to HK$13,405,000 (2007: HK$7,973,000), representing 0.5% (2007: 0.5%) of the Group's revenue. The increase in finance costs was mainly due to the slight increase in financing activities as a consequence of the increase of Group's revenue and buying of the credit insurance for protecting the receivables of overseas customers.

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

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

Tax

During the Current Year, taxation charges increased by 282.2% to HK$27,493,000 (2007: HK$7,193,000), representing 1.1% (2007: 0.4%) of the Group's revenue. During the Current Year, effective tax rate was 10.6% (2007: 3.6%). The substantial increase in taxation charges was mainly due to the exceptionally high deferred tax credit of HK$30,996,000 that the Group benefitted in the Prior Year as compared with a deferred tax credit of HK$26,327,000 that the Group benefitted in the Current Year and a slight increase in the profit tax rate for certain subsidiaries in the PRC. Deferred tax credit was calculated based on unrealized profit arising on the consolidation of books at the relevant tax rate of the relevant subsidiary. The management has taken certain tax planning measures to minimize the taxation charges.

Net profit

During the Current Year, profit attributable to shareholders ("Net Profit") increased by 18.7% to HK$227,512,000 (2007: HK$191,619,000), representing 9.0% (2007: 10.8%) of the Group's revenue. The increase in Net Profit was mainly due to the increases of the Group's revenue, steady gross profit margin, and tight control on operating expenses.

PROSPECT

Despite of the unstable global economy, the Group did exceptionally well in the Current Year. The Group attributed its success to the efforts from all parties.

With the completion of the telecommunications industry restructuring and issuance of the 3G mobile licenses in the PRC, the management is confident on the Group's future. The competition among mobile operators will become more vigorous. They will improve their services as well as the network quality and consequently become more aggressive on the network buildout and enhancement. The industry competition will definitely help the Group achieve better results for the future years.

In addition, in the PRC, the recent government economic stimulus policies for encouraging the infrastructure buildout and domestic spending could benefit the Group's business development. With the policies in place, the management expects the growth rate on building the mobile networks to accelerate.

Besides, the management believes that both 2G and 3G mobile networks will co-exist in the future. Mobile operators target high-end users at higher average revenue per user per month (ARPU) with providing 3G mobile services. With the leading position in the 2G mobile networks and numerous sophisticated solutions for 3G mobile networks, the Group undoubtedly will maintain a similar leading position in 3G business. The Group has recently obtained massive sales orders from customers and continuous customers' enquiries for both 2G and 3G products.

International market growth is one of the key diversification strategies of the Group and international sales are seeing strong returns as a result of such strategies. The Group has seen solid returns on its investments in markets that include the Americas and the Asia-Pacific region with new 3G network rollouts and 2G network enhancement projects. In 2008, significant inroads were made in these markets with multi-million dollar agreements and global approved supplier status for operators and vendors such Reliance Communications, Telefonica Group, Vodafone, Telecom Italia Mobile, Huawei, ZTE, Alcatel-Lucent amongst others. Our strive for long term localized partnership with our customers in various global regions shall allow us to continue to expand our presence in the international market.

Wireless Enhancement

Wireless enhancement remains the major business segment of the Group. Within the next few years in the PRC, 2G mobile networks continue to be the dominating mobile network while 3G mobile networks will grow rapidly. As the macro-economy in the PRC continues to grow, mobile phone users increase rapidly, rapid expansion on rural areas, more infrastructure, the management expects that the total capital spending on wireless enhancement for 2G mobile network will remain stable.

With many successfully implemented projects, the management is more confident on increasing the revenue on wireless enhancement. In the Current Year, the Group has successfully incorporated its self-developed product into the Beijing Tianjin High Speed Railway project and we believe that this product can be widely deployed in such kind of solutions. The Group has obtained orders for similar projects. Moreover, the Group is also very successful in providing wireless enhancement solutions for both outdoor coverage, such as residential and commercial areas, highways, stadiums, and indoor coverage, such as shopping arcades, buildings, convention centers.

In view of the recently announced implementation timetable for the 3G mobile networks in the PRC, the management expects that massive wireless enhancement projects for 3G mobile networks will soon begin. Beside the already in-place TD-SCDMA mobile network, it is generally expected that the services for the other two 3G mobile networks, WCDMA and CDMA2000, will launch within a few months.

As 3G mobile signals usually cover a smaller area than 2G mobile signals, the needs for wireless enhancement for 3G mobile networks are stronger. After many years of product and sales and services network development, the Group is well-prepared for the upcoming business opportunities.

The demand for wireless enhancement products has always been strong. The market demand can increase to 50% or more.

Internationally, operators are beginning the increase focus on optimizing their network investments through the deployment of wireless enhancement solutions that enables the extension of existing networks as well as optimizing capacity. Thus, this trend is expected to benefit the Group's wireless enhancement division.

Antennas and Subsystems

Antennas and subsystems recorded substantial growth in the PRC and international markets. With the increasing contribution to the Group's revenue, antennas and subsystems is one of the major business segments of the Group.

The Group is a leading antennas manufacturer in the PRC. During the Current Year, the Group manufactured over 200,000 pieces of BTS antennas including directional panel antennas and remote electrical tilt control antennas and approximately 1,100,000 pieces of indoor antennas.

Since 2009, the demand for antennas in respect of 2G and 3G mobile networks for the PRC markets has increased substantially. The recent market demand has increased over 100%. The strong growth is mainly on the smart antennas, multiple bandwidth variable electrical tilt antennas, camouflaged antennas, combiners, and controllers.

Internationally, the Group continued to secure a considerable number of on-going orders, including an order for tower mounted solutions from a sizable overseas operator.

The existence of 2G, 3G and the advent of 4G mobile networks, the frequency requirements have increased substantially, corresponding with market demands from PRC and globally. As such, the Group continues to invest in order to develop a diversified portfolio of antennas and subsystem solutions to address this which includes the launch of multi-band and smart antennas. As such, the Group believes the demand for its antennas and subsystems will be stronger than ever.

Wireless Transmissions — Digital Microwave Systems ("DMS")

The Group has achieved an extremely high growth in DMS with sales orders around the world. The Group has worked closely with the leading core equipment manufacturers to provide a series of DMS products with high efficiency. In 2009, the major core equipment manufacturer has doubled the sales orders to the Group. The DMS products have also passed the testing and certification run by other major core equipment manufacturers.

With operators extending existing networks and new network buildouts in PRC and internationally, there will be a increase in demand for wireless backhaul and radio access solutions that the Group's wireless transmission division will be able to leverage on in order to continue its growth and will become one of the major business segments in the next years.

Services

During the Current Year, services was the business segment with a strong growth. During years of providing overall solutions and engineering services, the Group has built up a strong service team, gained lots of experience in providing technical supports and developed a series of systemic and comprehensive integrated solutions. This helped the Group to obtain more business opportunities to provide services under the business mode in the PRC of bulk purchase, to introduce its services to the overseas and to provide services in key countries and regions. Services are getting more important for mobile operators which always request not only high quality equipment but also good performance of services. The Group's good performance of services could help mobile operators speed up the buildout of the mobile networks and provide better mobile network quality; consequently, it can help mobile operators to achieve higher market share.

In the future years, the Group will continue to focus on providing services. By providing proper trainings and experience to the service teams, the services income will achieve a higher level. Installation services continue to be the largest driving force while after-sale maintenance services, with recurring income, will be the high growth area. In the PRC, the Group, whose services network covers all provinces and cities in the country, maintains not only its own products but also other products (including the core equipment manufacturers' products).

Conclusion

On 7 January 2009, the Ministry of Industry and Information of the PRC Government has approved the issuance of three 3G mobile licenses to the three mobile operators. The total forecast capital spending for 3G mobile network for the next 3 years is RMB400 billion, of which RMB150 billion, RMB130 billion, and RMB120 billion will be spent in years 2009, 2010, and 2011 respectively. Besides, in the years 2009 and 2010, the total capital spending will not be less than RMB280 billion of which RMB100 billion will be spent from each China Mobile Group and China Unicom Group and RMB80 billion will be spent from China Telecom Group.

Management Discussion and Analysis

The capital spending plans also reflect the aggressiveness of the PRC mobile operators. They are building over 100,000 BTSs in 2009. By the end of 2009, the total number of BTSs in the PRC will be over 650,000. The mobile network and wireless enhancement needs are increasing rapidly.

The substantial increase in market demand comes side by side with challenges. First, the recent sales orders have indicated that the Group's current existing production capacity are challenged in meeting the strong market demand. The Group is increasing its production capacity through the following methods: 1. fine-tuning the production process; 2. renting temporary additional production floors; 3. outsourcing certain processes and procedures to third party manufacturers; 4. building a new production facility with costs approximating HK$80 million.

Second, the Group needs to continue to invest in R&D in order to broaden the product portfolio, innovate new technology, and streamline the production process. The management has set a right direction on the product strategy and is always the leader in products in the industry.

Third, the Group's global sales and services networks need to be further improved. In order to maintain a high gross profit margin, the Group has to provide different solutions and services. The quality on service teams is as important as on products.

Despite of the indefinite business opportunities, the management is still prudent and concentrated on the industry. The management has set a high priority on cost controls as well as risk management. Cost control measures are always enforced. Besides, the management strives to minimize the negative impacts on the Group in case the global economy is getting worse.

With the corporate culture "Pursuance for perfection, Pursuance for harmony", the Group will endeavor to maintain a solid and healthy financial position and consolidate its leading market position, while pursuing a balanced and carefully planned growth strategy in order to maximize the shareholders' value.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2008, the Group had net current assets of HK$1,501,532,000. Current assets comprised inventories of HK$1,052,458,000, trade receivables of HK$1,272,861,000, notes receivable of HK$35,467,000, prepayments, deposits and other receivables of HK$121,819,000, restricted bank deposits of HK$4,168,000 and cash and cash equivalents of HK$468,166,000. Current liabilities comprised trade and bills payables of HK$922,708,000, other payables and accruals of HK$400,871,000, interest-bearing bank borrowings of HK$47,494,000, tax payable of HK$53,803,000 and provision for product warranties of HK$28,531,000.

The average receivable turnover for the Current Year was 171 days compared to 200 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness, except for those retention money generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The average payable turnover for the Current Year was 170 days compared to 176 days for the Prior Year. The average inventory turnover for the Current Year was 209 days compared to 230 days for the Prior Year.

As at 31 December 2008, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. As the Group's revenue is substantially denominated in RMB, the Board currently considers that the appreciation of RMB should have a mildly favourable impact on the Group's business.

The Group's gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 1.5% as at 31 December 2008 (31 December 2007: 3.2%).

CHARGE ON ASSETS

As at 31 December 2008, there was no charge on the Group's assets (31 December 2007: Nil).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had contingent liabilities of HK$21,678,000 (31 December 2007: HK$5,866,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group had approximately 5,600 staff. The total staff costs for the Current Year were HK$466,401,000. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of each such employee as well as the Group. The Group also provides training to staff to improve their skills and develop their respective expertise.

Directors and Senior Management

Mr. Fok Tung Ling

DIRECTORS

Executive Directors

Mr. Fok Tung Ling (霍東齡), aged 52, chairman of the Board and president. Mr. Fok is primarily responsible for the Group's overall strategic planning, management and business development. From 1982 to 1987, Mr. Fok worked as a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from the Beijing Institute of Post and Telecommunications (currently known as the Beijing University of Post and Telecommunications (北京郵電大學)), majoring in microwave communications. Prior to 1991, Mr. Fok worked as a marketing executive at the China Electronics Import-Export Corporation, South China Branch (中國電子進出口總公司華南分公司) which was engaged in the import and export of electronic products. From 1991 to 1997, Mr. Fok was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 27 years of experience in wireless communications. Mr. Fok is the sole director of Prime Choice Investments Limited, which is a substantial shareholder of the Company.

Mr. Zhang Yue Jun

Mr. Tong Chak Wai, Wilson

Mr. Wu Jiang Cheng

Mr. Zhang Yue Jun (張躍軍), aged 50, vice chairman & executive vice president, R&D. Mr. Zhang is responsible for the overall research and development of new technology and products, and the overall quality control of products. He graduated from South China Institute of Technology (currently known as South China University of Technology (華南理工大學)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997 he was the deputy chief engineer of a joint venture company in Shenzhen, mainly responsible for wireless telecommunications projects. Mr. Zhang has over 26 years of experience in wireless communications and he co-founded the Group in 1997. Mr. Zhang is the sole director of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

Mr. Tong Chak Wai, Wilson (唐澤偉), aged 37, executive director and group financial controller. Mr. Tong is also the authorized representative and company secretary of the Company. Mr. Tong is mainly responsible for the overall financial management, accounting, investor relations and company secretarial duties of the Group. Mr. Tong holds a master of business administration degree from University of San Francisco, a master degree in economics from Murray State University, and a bachelor degree in accounting from University of Southern California. Mr. Tong is a Certified Practising Accountant of CPA Australia, a member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate of The Institute of Chartered Secretaries and Administrators and an associate of the Hong Kong Institute of Company Secretaries. Mr. Tong has over 14 years of experience in finance and legal work in the listed and multinational companies. He joined the Group in 2008.

Mr. Wu Jiang Cheng (伍江成), aged 49, executive director and senior vice president, PRC marketing & sales. He is responsible for the formulation and implementation of the Group's overall sales and marketing strategies in the PRC and is also involved in the supervision of such strategies. He graduated from the Southwest Jiaotong University (西南交通大學) in 1982 and obtained a bachelor's degree in electrical engineering and an EMBA degree from School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in 2006. Mr. Wu has over 10 years of experience as a lecturer in engineering and spent his last two years of teaching at Guangzhou University. Mr. Wu also has over 16 years of experience in communications and marketing and he joined the Group in 1997.

Directors and Senior Management

Mr. Yan Ji Ci

Mr. Zheng Guo Bao

Mr. Yeung Pui Sang, Simon

Mr. Yan Ji Ci (嚴紀慈), aged 54, executive director and senior vice president, production operations. Mr. Yan is responsible for the operations of the supply chain of the Group and the production and procurement management of the Group's production facilities in Guangzhou, the PRC. Mr. Yan graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 33 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 43, executive director and the chief executive officer of the WaveLab Holdings Limited, an indirect subsidiary of the Company. Mr. Zheng is primarily responsible for the strategic development of the digital microwave systems products. He graduated from the University of Science and Technology of China and obtained bachelor's and master's degrees in electrical engineering. From 2000 to 2002, Mr. Zheng served as chief engineer in Filtronic Sigtek, Inc., Maryland USA. Before joining the Group, he worked as an engineering manager in wireless communication division of L3 Communications (former EER Systems, Inc.), Virginia USA. He is the member of the Institute of Electrical and Electronics Engineers (IEEE). Mr. Zheng has over 22 years of experience in RF/micro wave/millimeter-wave technology and wireless communications and specialized in the field of research and development. He joined the Group in 2003.

Mr. Yeung Pui Sang, Simon (楊沛燊), aged 36, executive director and senior vice president, strategy & international operations. Mr. Yeung is also the chief operating & strategy officer of Comba Telecom Systems International Limited, an indirect wholly owned subsidiary of the Company. Prior to joining the Group, Mr. Yeung was the vice president of strategy & business development and a founding employee of LGC Wireless, Inc. ("LGC") based in the Silicon Valley, USA which was successfully acquired by ADC Telecom, Inc. Mr. Yeung also held various positions at LGC including the general manager of a business unit, director of technical marketing, general manager of Asia Pacific and principal engineer. Mr. Yeung holds a master of science degree in engineering from University of California at Berkeley and a bachelor of science degree in electrical engineering from Purdue University. Mr. Yeung has over 13 years of experience in the telecom industry. He joined the Group in 2004.

Independent Non-executive Directors

Mr. Yao Yan (姚彥), aged 71, independent non-executive director. Mr. Yao is currently the deputy director of Academy Committee of State Key Lab and a professor in the Department of Electronics Engineering of Tsinghua University. He was the director of the State Key Lab in 1998. Mr. Yao joined the Group in 2003.

Mr. Lau Siu Ki, Kevin (劉紹基), aged 50, independent non-executive director. He has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants. He is now a member of the Council of ACCA. He has also served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for the year 2000/2001. Mr. Lau is also an independent non-executive director of Wah Sang Gas Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange and eight other companies listed on the main board of The Stock Exchange namely Carry Wealth Holdings Limited, Greenfield Chemical Holdings Limited, TCL Communication Technology Holdings Limited, COL Capital Limited, Foxconn International Holdings Limited, Proview International Holdings Limited, Samson Holding Ltd. and Embry Holdings Limited. Mr. Lau joined the Group in 2003.

Mr. Liu Cai (劉彩), aged 68, independent non-executive director. He is the vice chairman of the China Institute of Communications and chairman of the Consultative Committee for Telecom Law Drafting of the Ministry of Information Industry. From 1988 to 2001, Professor Liu worked with the former Ministry of Post and Telecommunications and the Ministry of Information Industry of the PRC (the "Ministries"). As the director-general of the Policy and Regulation Department of the Ministries, he was directly involved and responsible for policy formulation, reform planning, laws and regulations drafting for the telecommunications industry of the PRC. Before joining the Ministry in 1988, Professor Liu was engaged in research and development works at the China Academy of Post and Telecommunications after graduating from the Beijing Institute of Post and Telecommunications (currently known as the Beijing University of Post and Telecommunications). Mr. Liu joined the Group in 2003.

SENIOR MANAGEMENT

Mr. Chen Sui Yang (陳遂陽), aged 45, vice president, wireless enhancement business unit. Mr. Chen is mainly responsible for the research and development of the new products and technology in wireless enhancement. He graduated from the Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學)) and obtained a bachelor's degree in antenna technology in 1985. He is now taking an EMBA degree course in China Europe International Business School (CEIBS) (中歐國際工商學院). Mr. Chen has over 23 years of experience in technology research of wireless communications. He joined the Group in 1998.

Mr. Zhang Jin Yu, Charles (張金玉), aged 45, deputy financial controller, PRC finance. Mr. Zhang is responsible for the Group's accounting and financial management in the PRC. He is a member of the Certified General Accountants of Canada. He obtained a master of science degree in accounting from the University of New Haven in Connecticut, the United States of America in 1998 and a master's degree in economic from South-western University of Economics and Finance (西南財經大學) in 1990. He has over 18 years of experience in accounting and financial management and joined the Group in 2004.

Mr. Zhang Yuan Jian (張遠見), aged 51, vice president of the Group. Mr. Zhang is in charged of the technical research and product development of the Group's research and development center. He graduated from the University of Science and Technology of China (中國科技大學) and obtained the bachelor degree of fast electronics in 1981 and subsequently graduated from the Nanjing Institute of Electronic Technology (南京電子技術研究所) with a master degree in microwave technology in 1984. Mr. Zhang has over 25 years of experience in the technical research on wireless communications industry, product development and relevant management. He joined the Group in 2004.

Mr. Fredrik Dyfverman, aged 38, vice president, sales and business development of the Group's international branch in Sweden. Mr. Fredrik Dyfverman is responsible for developing the Group's brand as well as establishing sales platform outside China market. Prior to joining the Group, Mr. Fredrik Dyfverman was the vice president of system sales division of Allgon Systems AB, based in Stockholm, Sweden. He graduated from the Kalmar University and obtained the bachelor of science degree in industrial engineering in 1996. Mr. Fredrik Dyfverman has 11 years of experience in the wireless industry. He joined the Group in 2004.

Mr. Ong Sing Jye (王新杰), aged 40, general manager of the Group's international branch in Singapore. He is also the vice president of the network solutions division within Comba International. Mr. Ong holds a master's degree from the Imperial College, London in advanced IT and an MBA from the University of Hull. He graduated with honours from the University of Birmingham, specializing in Electronics and Communications Engineering. He has more than 15 years of experience in the telecommunications industry and joined the Group in 2002.

Mr. Zhang Shan Yu (張山宇), aged 51, deputy general manager of the Group's sales and marketing department and director of the Group's Northeastern branch. Mr. Zhang is responsible for the Group's business development in Liaoning, Jilin and Heilongjiang provinces. He graduated from Dalian Institute of Technology (currently known as Dalian University of Technology (大連理工大學)) and obtained a bachelor's degree in wireless technology. Mr. Zhang has over 26 years of experience in engineering, marketing and management. He joined the Group in 1997.

Mr. Feng Yong (馮勇), aged 37, deputy general manager of the Group's sales and marketing department and director of the Group's Eastern branch. Mr. Feng is responsible for the business operation in relation to the Group's major customers and the Group's business development in Shanghai city, and Zhejiang and Jiangsu provinces. He graduated from the China Europe International Business School (CEIBS) (中歐國際工商學院) and obtained an EMBA in 2005. Mr. Feng has over 11 years of experience in marketing and management. He joined the Group in 2000.

Mr. Shen Wen Bo (沈文波), aged 45, deputy general manager of the Group's sales and marketing department and director of the Group's Northwestern branch. Mr. Shen is responsible for the senior level business operation in relation to the Group's major customers and the Group's business development in Shaanxi, Qinghai and Gansu provinces; he is also responsible for the business expansion in Ningxia Huizu and Xinjiang Uygur autonomous regions. He obtained his master's degree in business administration from the Macao University of Science and Technology (澳門科技大學) in Macau. Mr. Shen has over 23 years of experience in marketing and management. He joined the Group in 1999.

Mr. Qiao Hong Feng (喬宏楓), aged 47, director of the Group's Northern branch. Mr. Qiao is responsible for the Group's business development in Shandong and Henan provinces. He graduated from Nankai University (南開大學) and obtained an EMBA in 2005. Mr. Qiao has over 18 years of experience in marketing and management. He joined the Group in 1999.

Mr. Meng Cheng Zhi (蒙承志), aged 40, general manager of the Group's Guangdong branch. Mr. Meng is responsible for the Group's business development in Guangdong. He graduated from the Chengdu University of Electronic Science and Technology (currently known as University of Electronic Science and Technology (電子科技大學)). Mr. Meng has over 16 years of experience in engineering and management. He joined the Group in 1997.

Ms. Li Yu Wen (李宇雯), aged 38, deputy general manager of the Group's sales and marketing department. Ms. Li is responsible for daily operations management of the Group's sales and marketing department and the liaison with key customers in Guangdong province. She graduated from the Yunnan University (雲南大學) in 1992 and obtained a bachelor's degree in physics. She also obtained an EMBA degree from School of Economics and Management of Tsinghua University in 2006. Ms. Li has over 16 years of experience in the market of communications, operation and project management. Ms. Li served in the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

Mr. Liu Yi Bo (劉義波), aged 40, general manager of the Group's wireless enhancement business unit. Mr. Liu is responsible for the management of technical support and research and development system in the Group's wireless enhancement product line. He graduated from University of Electronic Science & Technology of China (電子科技大學) and obtained a bachelor's degree in electronic magnetic field and microwave technology. Mr. Liu has over 17 years of experience in engineering and project management. He joined the Group in 1997.

Mr. Su Hua Hong (蘇華鴻), aged 68, senior engineer of professor level, wireless business technical director of the Group. Mr. Su is responsible for design solution of wireless enhancement product for the Group. He graduated from the Beijing Institute of Post and Telecommunications (currently known as Beijing University of Post and Telecommunications) and obtained a master's degree. Mr. Su was the chief engineer of the Research Centre of Institute of Design and the deputy director of Wireless Department of the Ministry of Post and Telecommunications, the PRC. Mr. Su obtained the engineering technology prominent contribution certificate from the State Council in 1992, and enjoyed the special state allowance. Mr. Su has over 43 years of experience in telecommunications. He joined the Group in 2001.

Mr. Sun Ru Shi (孫孺石), aged 69, senior engineer, technical director of the Group's Eastern branch. Mr. Sun is responsible for the design of the special project solution of the Group. Mr. Sun graduated from Xi'an Jiaotong University (西安交通大學) and obtained a bachelor's degree. Mr. Sun obtained the prominent contribution award from the State Council in 1992 and enjoyed the special state allowance. Mr. Sun has over 43 years of experience in communications. He joined the Group in 2003.

Mr. Bu Bin Long (卜斌龍), aged 46, general manager of the Group's antennas and subsystems business unit. Mr. Bu is responsible for the Group's research & development of antenna products of subsystems and operations management of mobile communications base stations. Mr. Bu graduated in 1985 from Northwest Institute of Telecommunications Engineering (currently known as Xidian University) and obtained a master's degree in electronic magnetic field and microwave technology. Mr. Bu has over 23 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Directors and Senior Management

Mr. Zhu Qin (朱勤), aged 51, microwave systems technical director of the Group. Mr. Zhu is responsible for the Group's research & development and technical management in digital microwave products. He graduated from South China Institute of Technology (currently known as South China University of Technology) and obtained a bachelor's degree in Science in radio technology. Mr. Zhu has over 26 years of experience in development and technical management of microwave communication products. He joined the Group in 2004.

Mr. Wang Wei (王偉), aged 45, deputy technical director of the Group's research & development centre and the general manager of the Group's R&D centre in Nanjing, the PRC. Mr. Wang is responsible for the Group's research & development of the new products in RF technology of digital microwave systems. He graduated from the Department of Information Physics, Nanjing University (南京大學) and obtained a bachelor's degree in science. Mr. Wang has over 23 years of experience in research & development in RF technology of digital microwave systems. He joined the Group in 2005.

Mr. Di Ying Jie (邸英傑), aged 47, is the technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the Group's product development works concerning microwave RF passive accessories. Mr. Di graduated from Xidian University, majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in design and research of microwave RF passive accessories for many years. Mr. Di is also very experienced in product development of microwave RF passive accessories. He joined the Group in 2004.

Mr. Feng Bo (馮波), aged 54, director of the Group's Tianjin branch. Mr. Feng is responsible for the business development of the Group in Tianjin, Hebei, Shanxi and the Inner Mongolia Autonomous Region. He graduated from Tianjin University (天津大學) with a bachelor's degree in radio technology. Mr. Feng has over 28 years of experience in research, marketing and management of communications products. He joined the Group in 2002.

Mr. Shen Wen (沈文), aged 43, director of the Group's Southwest branch. Mr. Shen is responsible for the business development of the Group in Sichuan, Chongqing, Guizhou, Yunnan and the Tibet Autonomous Region. He graduated from South China University of Technology and obtained a bachelor's degree in chemical engineering and light industry in 1988, and received an EMBA degree from School of Economics and Management of Tsinghua University in 2006. Mr. Shen has over 18 years of experience in communications engineering, marketing and management. He joined the Group in 1999.

Mr. Pan Tian (潘天), aged 33, director of the Central China region of the Group. Mr. Pan is responsible for the business development of the Group in Hunan, Hubei, Jiangxi and Anhui. He graduated from Air Force Engineering University (空軍工程大學) with a bachelor's degree in communications engineering. Mr. Pan has 9 years of experience in engineering, marketing and management. He joined the Group in 2000.

Mr. Jiang Hong Ming (江洪明), aged 35, deputy director of the Group's human resource. Mr. Jiang is responsible for the development and operation of the human resources of the Group, remunerations and benefits, employees' relations and performance management. He graduated from the Renmin University of China (中國人民大學), majoring human resources and labour economics, and has received a master degree in labour economics and is recognized as a senior economist. Mr. Jiang has over 12 years of experience in the management of human resources, corporate operation and management. He joined the Group in 2003.

Ms. Wong Siu Fan (黃少芬), aged 37, deputy financial controller, group finance. Ms. Wong is responsible for the group financial reporting and assists in financial management and company secretarial duties of the Group. She holds degree of master of science in financial management from University of London. Ms. Wong is a Hong Kong Certified Public Accountant, an associate of the Institute of Chartered Secretaries and Administrators and an associate of the Hong Kong Institute of Company Secretaries. Ms. Wong has 14 years of experience in auditing and accounting. She joined the Group in 2004.

Corporate Governance Report

The Group is continuously committed to achieving high standards of corporate governance to ensure transparency and accountability. It believes that corporate governance is crucial to the development of the Group and helps safeguard the interests of the Company's shareholders.

The Company has complied with the code provisions as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the financial year ended 31 December 2008 (the "Financial Year"), except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that their divisions of responsibility should be clearly established and set out in writing. Mr. Fok Tung Ling, chairman of the board of directors of the Company (the "Board") is currently holding the office of chief executive officer during the Financial Year. Accordingly, the Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of the Board, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by its directors (the "Directors"). The Company has made specific enquiry with all Directors and each of the Directors has confirmed that they have complied with the required standard set out in the Model Code throughout the Financial Year.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises 10 Directors. Details of the composition of the Board, relationship among members of the Board (if any), term of appointment of the Directors, and biographical information of the Directors are set out in the sections "Report of the Directors" and "Directors and Senior Management" of this annual report. The Board held 8 meetings during the Financial Year with attendance record as follows:

Attendance at board meeting	**Number of meetings attended/ Total number of meetings held**
Executive Directors:	
Mr. Fok Tung Ling (Chairman & President)	8/8
Mr. Zhang Yue Jun	8/8
Mr. Tong Chak Wai, Wilson (Note 1)	0/0
Mr. Wu Jiang Cheng	8/8
Mr. Yan Ji Ci	7/8
Mr. Zheng Guo Bao	6/8
Mr. Yeung Pui Sang, Simon	7/8
Mr. Chan Kai Leung, Clement (Note 2)	2/2
Independent Non-executive Directors:	
Mr. Yao Yan	6/8
Mr. Lau Siu Ki, Kevin	8/8
Mr. Liu Cai	7/8

Note 1: Mr Tong Chak Wai, Wilson appointed as director on 21 November 2008. No board meeting of the Company was held during the year after his appointment.

Note 2: Mr Chan Kai Leung, Clement resigned as director on 17 April 2008. Two board meetings of the Company were held during the year prior to his resignation.

Full Board meetings are held at least 4 times a year. The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim financial statements for the Board's approval before public reporting; implementation of strategies approved by the Board; the monitoring of operating budgets; the implementation of internal control procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

All the independent non-executive Directors are appointed for a term of one year. The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his independence. As at the date of this report, the Board is satisfied that all such Directors are in full compliance with the independence guidelines as laid down in the Listing Rules.

The Board acknowledges their responsibilities for the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes, budget and preparation of the financial statements of the Group.

REMUNERATION COMMITTEE

The remuneration committee comprises three independent non-executive Directors, Mr. Yao Yan, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai. Mr. Lau Siu Ki, Kevin is the chairman of the remuneration committee. Its primary duties are to advise the Board on the remuneration policy for all Directors and senior management and to determine, review and monitor the remuneration packages and any compensation arrangements made to the Directors and senior management. The remuneration committee has adopted terms of reference which are in line with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

The Group offers competitive remuneration schemes to its employees (including directors) based on industry practices as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of each such employee as well as the Group. The Group also provides training to employees to improve their skills and develop their respective expertise.

There was a meeting held during the Financial Year and all committee members attended that meeting, at which the compensation packages of all Directors and senior management were discussed and approved.

NOMINATION OF DIRECTORS

No nomination committee is set up. The Board exercises its duties to the appointment and removal of directors. During the nomination process, the Board usually considers the competency, independency (in case of independent non-executive director) & conflict of interests, capacity, management experience of a candidate which makes him/herself suitable for the role as a director.

There was appointment and resignation of directors in the Financial Year. Details of the appointment and resignation are set out in the section of "Report of the Directors" of this annual report. Accordingly, the Board held a meeting to address matters relating to nomination of a director during the Financial Year. Mr. Fok Tung Ling and Mr. Zhang Yue Jun attended that meeting whereas all the remaining Directors were already given prior notice of the appointment of such director.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, Mr. Yao Yan, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai. Mr. Lau Siu Ki, Kevin is the chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. Its primary duties are to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors.

The Group's financial statements for the Financial Year were reviewed by the Audit Committee, who was of the opinion that such statements complied with applicable accounting standards and legal requirements, and that adequate disclosures had been made. During the Financial Year, the Audit Committee also reviewed the interim report and internal control system of the Group.

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

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

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

The Company always endeavours to improve transparency and accountability to its shareholders in the best possible way. After reporting its interim or annual results, the Company holds press conferences and investment analyst conferences where the financial performance, business review and prospect of the Group are presented. This also sets an open communications platform for the Group's senior management to address any questions that the investment community and the media may have. Web-cast presentation is then sent to shareholders and investors around the world to ensure information is disseminated on a fair and timely basis. The Company issues press releases and announcements where appropriate to provide updated information about the Group's business development in a timely manner. The Company also updates its website regularly to ensure information about its latest development is disseminated promptly.

During the Financial Year, the Group's senior management attended over 170 investor meetings, including participation in 4 investor conferences, and 4 non-deal roadshows, 3 plant visits were arranged. This provided the investment community with an opportunity to understand the business of the Group better. As a result of the investor relations activities undertaken, as at the end of the Financial Year, 10 securities companies provided research coverage on the Company.

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The Board has therefore set up an Internal Audit Department to assist the Board and the Audit Committee to ensure that the Group maintains a sound system of internal controls.

The Head of Internal Audit Department has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. During the Financial Year, the Head of Internal Audit Department attended the Audit Committee meetings and highlighted and explained any material issues in relation to the Company's financial statements.

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

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

AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. The Audit Committee considered and approved the engagement of Ernst & Young as auditors of the Company for the Financial Year and the corresponding audit fees estimation. During the Financial Year, the fees paid to the auditors for audit services and non-audit services (mainly tax computation work and review of interim financial statements) amounted to HK$2,499,000 and HK$491,000, respectively.

Report of The Directors

The directors of Comba Telecom Systems Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 105.

The directors recommend the payment of a final dividend of HK7 cents per ordinary share in respect of the year (2007: HK6 cents per ordinary share) to shareholders on the register of members on 2 June 2009. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. No interim dividend was paid for the year ended 31 December 2008 (2007: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 106. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company purchased certain of its shares on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Total price paid HK$'000
October 2008	8,016,000	0.95	1.10	8,233

The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital reserve.

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and/or earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$434,410,000 of which HK$59,315,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$374,146,000, may be distributed, provided that immediately following the date on which the distribution or dividend proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 88% of the total sales for the year and sales to the largest customer included therein accounted for approximately 56% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 13% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Fok Tung Ling ("Mr. Fok") (Chairman and President)
Mr. Zhang Yue Jun ("Mr. Zhang")
Mr. Tong Chak Wai, Wilson ("Mr. Tong")
(appointed on 21 November 2008)
Mr. Wu Jiang Cheng ("Mr. Wu")
Mr. Yan Ji Ci ("Mr. Yan")
Mr. Zheng Guo Bao ("Mr. Zheng")
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")
Mr. Chan Kai Leung, Clement ("Mr. Chan")
(resigned on 17 April 2008)

Independent non-executive directors:

Mr. Yao Yan ("Mr. Yao")
Mr. Lau Siu Ki, Kevin ("Mr. Lau")
Mr. Liu Cai ("Mr. Liu")

In accordance with articles 87(1) and 87(2) of the Company's articles of association, Mr. Zhang, Mr. Yan and Mr. Zheng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. In accordance with article 86(3) of the Company's articles of association, Mr. Tong shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election. All the independent non-executive directors are appointed for a term of one year.

The Company has received annual confirmations of independence from Mr. Yao, Mr. Lau, and Mr. Liu as at the date of this report and considers them to be independent.

BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 22 to 28 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors (except Mr. Tong, Mr. Zheng and Mr. Yeung) has entered into a service contract with the Company for an initial term of three years which commenced on 1 July 2003, and will continue thereafter until terminated by either party giving not less than six months' written notice. As these contracts were entered into on or before 31 January 2004, they are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Mr. Tong has entered into a service contract with the Company for an initial term of three years which commenced on 1 December 2008 and will continue thereafter until terminated by not less than six month's notice in writing served by either party on the other. Each of Mr. Zheng and Mr. Yeung has entered into a service contract with the Company for an initial term of 18 months which commenced on 30 March 2008 and 7 April 2005, respectively and will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest			
Name of director	**Notes**	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Fok	(a)	10,716,000	369,504,000	380,220,000	44.87
Mr. Zhang	(b)	–	99,986,000	99,986,000	11.80
Mr. Tong	(c)	–	–	–	–
Mr. Wu	(c)	1,800,000	–	1,800,000	0.21
Mr. Yan	(c)	1,700,000	–	1,700,000	0.20
Mr. Zheng	(c)	1,450,000	–	1,450,000	0.17
Mr. Yeung	(c)	700,000	–	700,000	0.08
		16,366,000	469,490,000	485,856,000	57.33

Notes:

(a) 368,706,000 shares and 798,000 shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("Total Master"), respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in the total of 369,504,000 shares owned by Prime Choice and Total Master.

(b) These shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 99,986,000 shares owned by Wise Logic.

(c) Mr. Tong has share options in respect of 3,000,000 ordinary shares. Mr. Wu has share options in respect of 4,800,000 ordinary shares. Mr. Yan has share options in respect of 4,300,000 ordinary shares. Mr. Yeung has share options in respect of 6,800,000 ordinary shares. Mr. Zheng has share options in respect of 1,000,000 ordinary shares. Details of these share options are disclosed in note 29 to the financial statements.

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2008, none of the directors had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are reviewed by the Company's remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 29 to the financial statements.

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

At 31 December 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Prime Choice		Beneficial owner	368,706,000	43.51
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	380,220,000	44.87
Wise Logic		Beneficial owner	99,986,000	11.80
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	99,986,000	11.80

Notes:

(a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 380,220,000 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.

(b) Mdm. Cai is the spouse of Mr. Zhang and is deemed to be interested in the 99,986,000 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

There are duplications of interests in the issued share capital of the Company in respect of:

(i) 368,706,000 shares between Prime Choice and Mdm. Chen; and

(ii) 99,986,000 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2008, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

On 25 June 2008, the Lender, Cascade Technology Limited and the Borrower, WaveLab Holdings Limited ("WaveLab Holdings"), entered into a loan agreement ("the First Loan Agreement") pursuant to which the Lender agreed to lend a principal amount of US$3,000,000 (equivalent to approximately HK$23,400,000) ("the First Loan") to the Borrower subject to the terms and conditions of the First Loan Agreement as described below.

The Loan will become available for drawing by the Borrower at any time during the period from the date of the First Loan Agreement and ending extended to 31 December 2009. If the First Loan is not drawn by the Borrower before the last day of the above availability period, the First Loan will cease to be available for drawing and the First Loan Agreement shall forthwith terminate. The Borrower has been paying interest on the First Loan at a rate of LIBOR at the date of drawing plus 1 per cent per annum. The interest period of the First Loan is either 6 months or 12 months at the selection of the Borrower. The Lender may, at any time upon giving notice in writing, demand repayment of the First Loan in full or in part up to the outstanding amount of the First Loan not yet repaid and/or payment of any part of the interest accrued thereon as at the date of the written demand of the Lender.

Unless otherwise agreed by the Lender, the First Loan is applied by the Borrower as working capital of the Borrower and its subsidiaries.

On 1 August 2008, the Lender, Cascade Technology Limited and the Borrower, WaveLab Holdings, entered into another loan agreement ("the Second Loan Agreement") pursuant to which the Lender agreed to lend a principal amount of US$3,000,000 (equivalent to approximately HK$23,400,000) ("the Second Loan") to the Borrower subject to the terms and conditions of the Second Loan Agreement as described below.

The Second Loan will become available for drawing by the Borrower at any time during the period from the date of the Second Loan Agreement and ending on 31 December 2009. If the Second Loan is not drawn by the Borrower before the last day of the above availability period, the Second Loan will cease to be available for drawing and the Second Loan Agreement shall forthwith terminate. The Borrower has been paying interest on the Second Loan at a rate of LIBOR at the date of drawing plus 1 per cent per annum. The interest period of the Second Loan is either 6 months or 12 months at the selection of the Borrower. The Lender may, at any time upon giving notice in writing, demand repayment of the Second Loan in full or in part up to the outstanding amount of the Second Loan not yet repaid and/or payment of any part of the interest accrued thereon as at the date of the written demand of the Lender.

Unless otherwise agreed by the Lender, the Second Loan is applied by the Borrower as working capital of the Borrower and its subsidiaries.

The Lender is a wholly-owned subsidiary of the Company and 57% of the entire issued share capital of the Borrower is owned by the Lender. The Borrower is hence a non wholly-owned subsidiary of the Company. As Mr. Zheng, an executive director and a connected person of the Company, is a shareholder of the Borrower holding 32% of the issued share capital of the Borrower, the Borrower (being a non wholly-owned subsidiary of the Company and an associate of Mr. Zheng) is a connected person of the Company under the Listing Rules. To the best knowledge, information and belief of the Company, 7% is held by a director of the Borrower and the remaining 4% of the issued share capital of the Borrower is held by third parties who are independent of and not connected with the directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or its subsidiaries or any of their respective associates.

To the best knowledge, information and belief of the Company, no loan agreement (other than the First and the Second Loan Agreements) has been made between the Borrower and its shareholders (excluding the Lender) pursuant to the First and the Second Loan Agreements.

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

Continuing connected transactions

On 21 June 2007, the Group entered into an agreement (the "ODU Sales Agreement") with WaveLab Telecom Equipment (Guangzhou) Limited ("WaveLab Guangzhou") relating to (a) the sale of the digital microwave outdoor units and other products used in connection with microwave transmission (the "ODU") by WaveLab Guangzhou to the Group and (b) WaveLab Guangzhou's continued grant to the Group the sole and exclusive right to sell the ODU in the Mainland China, Hong Kong and Macau from 1 March 2007 to 31 December 2009. The price of the ODU under the ODU Sales Agreement is to be agreed between WaveLab Guangzhou and the Group in writing from time to time. The Group intended to integrate most, if not all, of the ODU acquired with the products of the Group. On 1 August 2008, the Group also entered into an extension agreement (the "Extension Agreement") with WaveLab Guangzhou whereby the term of the ODU Sales Agreement was extended from 31 December 2009 to 31 December 2010.

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

By virtue of WaveLab Guangzhou being a wholly-owned subsidiary of WaveLab Holdings, a 57% subsidiary of the Group, and that Mr. Zheng, an executive Director of the Company who is a 32% owner of WaveLab Holdings, both the transactions which the Group continued to carry out pursuant to the ODU Sales Agreement and the Diplexer Purchase Agreement constitute non-exempt continuing connected transactions falling under Rule 14A.35 of the Listing Rules.

On 9 September 2008, the Company sought the approval of its independent shareholders to approve (a) the continuing connected transactions to be carried out by the Group under the Extension Agreement and the Diplexer Purchase Agreement subject to the cap amounts as set out in the announcement issued by the Company on 1 August 2008 and (b) the Second Loan Agreement as mentioned in "connected transactions".

The directors (including the independent non-executive directors) of the Company have reviewed the transactions under the ODU Sales Agreement and the Diplexer Purchase Agreement (the "Transactions") and confirm that:

(i) the Transactions were entered into in the ordinary and usual course of business of the Group; conducted on normal commercial terms, or (where there is no sufficient comparable transactions to judge whether they are on normal commercial terms) on terms no less favourable to the Group than terms available to or from independent third parties; and conducted, in accordance with the ODU Sales Agreement and the Diplexer Purchase Agreement, on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole; and

(ii) the total annual expenditure by the Group in respect of the ODU Transactions and the Diplexer Transactions in the financial year ended 31 December 2008 did not exceed HK$144 million and HK$8.1 million respectively, being the cap amounts set for the year ended 31 December 2008 (the "Cap Amounts").

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

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

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

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

(iv) each of the aggregate value of the Transactions in respect of the year ended 31 December 2008 did not exceed the Cap Amounts respectively.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman and President

Hong Kong
27 March 2009

Independent Auditors' Report

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To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Comba Telecom Systems Holdings Limited set out on pages 41 to 105, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
27 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**2,525,895**	1,768,418
Cost of sales		**(1,579,861)**	(1,087,161)
Gross profit		**946,034**	681,257
Other income and gains	5	**19,083**	23,766
Research and development costs		**(132,253)**	(91,087)
Selling and distribution costs		**(185,811)**	(134,953)
Administrative expenses		**(370,112)**	(271,712)
Other expenses		**(3,554)**	(1,534)
Finance costs	7	**(13,405)**	(7,973)
PROFIT BEFORE TAX	6	**259,982**	197,764
Tax	9	**(27,493)**	(7,193)
PROFIT FOR THE YEAR		**232,489**	190,571
Attributable to:			
Equity holders of the parent		**227,512**	191,619
Minority interests		**4,977**	(1,048)
		232,489	190,571
DIVIDEND	11		
Proposed final		**59,315**	51,233
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	12		
Basic		**26.68**	22.56
Diluted		**26.59**	22.34

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**344,805**	293,700
Prepaid land lease payments	14	**14,376**	13,853
Goodwill	15	**29,187**	30,110
Deferred tax assets	16	**100,001**	68,997
Intangible assets	17	**7,999**	7,124
Restricted bank deposits	23	**1,090**	1,616
Total non-current assets		**497,458**	415,400
CURRENT ASSETS			
Inventories	19	**1,052,458**	754,766
Trade receivables	20	**1,272,861**	1,099,643
Notes receivable	21	**35,467**	29,385
Prepayments, deposits and other receivables	22	**121,819**	81,402
Restricted bank deposits	23	**4,168**	4,250
Cash and cash equivalents	23	**468,166**	374,496
Total current assets		**2,954,939**	2,343,942
CURRENT LIABILITIES			
Trade and bills payables	24	**922,708**	548,469
Other payables and accruals	25	**400,871**	341,696
Interest-bearing bank borrowings	26	**47,494**	88,794
Tax payable		**53,803**	28,606
Provisions for product warranties	27	**28,531**	40,066
Total current liabilities		**1,453,407**	1,047,631
NET CURRENT ASSETS		**1,501,532**	1,296,311
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,998,990**	1,711,711
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	**3,750**	–
Deferred tax liabilities	16	**6,233**	6,761
Total non-current liabilities		**9,983**	6,761
Net assets		**1,989,007**	1,704,950

	Notes	2008 HK$'000	2007 HK$'000
Net assets		**1,989,007**	1,704,950
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	28	**84,735**	85,389
Reserves	30(a)	**1,830,489**	1,561,634
Proposed final dividend	11	**59,315**	51,233
		1,974,539	1,698,256
Minority interests		**14,468**	6,694
Total equity		**1,989,007**	1,704,950

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		84,041	340,570	46,962	46,510	22,652	71,322	78,578	670,664	37,818	1,399,117	7,742	1,406,859
Arising on revaluation of land and buildings	13	–	–	–	–	14,910	–	–	–	–	14,910	–	14,910
Exchange realignment		–	–	–	–	–	–	95,836	–	–	95,836	–	95,836
Total income and expense recognised directly in equity		–	–	–	–	14,910	–	95,836	–	–	110,746	–	110,746
Profit for the year		–	–	–	–	–	–	–	191,619	–	191,619	(1,048)	190,571
Total income and expense for the year		–	–	–	–	14,910	–	95,836	191,619	–	302,365	(1,048)	301,317
Final 2006 dividend declared		–	–	–	–	–	–	–	–	(38,261)	(38,261)	–	(38,261)
Issue of shares	28	1,348	36,938	(7,437)	–	–	–	–	–	–	30,849	–	30,849
Equity-settled share option expenses	29	–	–	10,947	–	–	–	–	–	–	10,947	–	10,947
Adjustment arising from lapse of share options		–	–	(1,245)	–	–	–	–	1,245	–	–	–	–
Deferred tax liabilities on change in property value	16	–	–	–	–	(6,761)	–	–	–	–	(6,761)	–	(6,761)
Under provision of final 2006 dividend		–	–	–	–	–	–	–	(443)	443	–	–	–
Proposed final 2007 dividend	11	–	–	–	–	–	–	–	(51,233)	51,233	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	615	–	(615)	–	–	–	–
At 31 December 2007		85,389	377,508*	49,227*	46,510*	30,801*	71,937*	174,414*	811,237*	51,233	1,698,256	6,694	1,704,950

	Notes	Attributable to equity holders of the parent										Minority interests	Total equity
		Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2008		85,389	377,508	49,227	46,510	30,801	71,937	174,414	811,237	51,233	1,698,256	6,694	1,704,950
Arising on revaluation of land and buildings	13	–	–	–	–	(2,030)	–	–	–	–	(2,030)	–	(2,030)
Exchange realignment		–	–	–	–	–	–	98,206	–	–	98,206	890	99,096
Total income and expense recognised directly in equity		–	–	–	–	(2,030)	–	98,206	–	–	96,176	890	97,066
Profit for the year		–	–	–	–	–	–	–	227,512	–	227,512	4,977	232,489
Total income and expense for the year		–	–	–	–	(2,030)	–	98,206	227,512	–	323,688	5,867	329,555
Final 2007 dividend declared		–	–	–	–	–	–	–	–	(51,233)	(51,233)	–	(51,233)
Issue of shares	28	148	4,069	(888)	–	–	–	–	–	–	3,329	–	3,329
Repurchase of shares	28	(802)	(7,431)	–	762	–	–	–	(802)	–	(8,273)	–	(8,273)
Equity-settled share option expenses	29	–	–	10,807	–	–	–	–	–	–	10,807	–	10,807
Adjustment arising from lapse of share options		–	–	(621)	–	–	–	–	621	–	–	–	–
Share options cancelled at expiry date		–	–	(7,495)	–	–	–	–	7,495	–	–	–	–
Deferred tax liabilities on change in property value	16	–	–	–	–	913	–	–	–	–	913	–	913
Proposed final 2008 dividend	11	–	–	–	–	–	–	–	(59,315)	59,315	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	2,353	–	(2,353)	–	–	–	–
Staff welfare fund		–	–	–	–	–	–	–	(118)	–	(118)	–	(118)
Disposal of a subsidiary (3% of interest in WaveLab)		–	–	–	(2,830)	–	–	–	–	–	(2,830)	1,907	(923)
At 31 December 2008		84,735	374,146*	51,030*	44,442*	29,684*	74,290*	272,620*	984,277*	59,315	1,974,539	14,468	1,989,007

* These reserve accounts comprise the consolidated reserves of HK$1,830,489,000 (2007: HK$1,561,634,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**259,982**	197,764
Adjustments for:			
Interest income	5	**(2,205)**	(3,046)
Finance costs	7	**13,405**	7,973
Depreciation	6	**54,740**	44,439
Recognition of prepaid land lease payments	6	**346**	325
Amortisation of intangible assets	6	**3,620**	4,596
Loss on disposal of items of property, plant and equipment	6	**746**	570
Equity-settled share option expense	6	**10,807**	10,947
		341,441	263,568
Increase in inventories		**(297,692)**	(136,977)
Increase in trade receivables		**(173,218)**	(259,217)
(Increase)/decrease in notes receivable		**(6,082)**	4,369
(Increase)/decrease in prepayments, deposits and other receivables		**(40,417)**	15,993
Increase in trade and bills payables		**374,239**	47,693
Increase in other payables and accruals		**59,060**	33,940
(Decrease)/increase in provisions for product warranties		**(14,047)**	12,830
Decrease/(increase) in restricted bank deposits		**608**	(3,770)
Cash generated from operations		**243,892**	(21,571)
PRC profits tax paid		**(27,915)**	(30,737)
Overseas profits taxes paid		**(708)**	(1,060)
Net cash inflow/(outflow) from operating activities		**215,269**	(53,368)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,205**	3,046
Purchases of items of property, plant and equipment	13	**(92,693)**	(49,366)
Acquisition of a subsidiary		**–**	(8,194)
Acquisition of intangible assets	17	**(4,059)**	(6,024)
Proceeds from disposal of items of property, plant and equipment		**1,437**	398
Net cash outflow from investing activities		**(93,110)**	(60,140)

	Notes	2008 HK$'000	2007 HK$'000
Net cash outflow from investing activities		**(93,110)**	(60,140)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	**3,329**	30,849
New bank borrowings		**459,758**	189,370
Repayment of bank borrowings		**(501,127)**	(263,172)
Amount paid for share repurchase		**(8,273)**	–
Interest paid		**(13,405)**	(7,973)
Dividends paid		**(51,233)**	(38,261)
Net cash outflow from financing activities		**(110,951)**	(89,187)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**11,208**	(202,695)
Cash and cash equivalents at beginning of year		**374,496**	492,737
Effect of foreign exchange rate changes, net		**82,462**	84,454
CASH AND CASH EQUIVALENTS AT END OF YEAR		**468,166**	374,496
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**468,166**	374,496

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**386,015**	377,425
Loan to a subsidiary	18	**170,455**	234,436
Total non-current assets		**556,470**	611,861
CURRENT ASSETS			
Due from subsidiaries	18	**401,200**	351,200
Prepayments, deposits and other receivables	22	**39**	38
Cash and cash equivalents	23	**78**	594
Total current assets		**401,317**	351,832
CURRENT LIABILITIES			
Other payables and accruals	25	**6,790**	6,200
NET CURRENT ASSETS		**394,527**	345,632
TOTAL ASSETS LESS CURRENT LIABILITIES		**950,997**	957,493
NON-CURRENT LIABILITIES			
Financial guarantee contracts	31	**5,914**	2,697
Net assets		**945,083**	954,796
EQUITY			
Issued capital	28	**84,735**	85,389
Reserves	30(b)	**801,033**	818,174
Proposed final dividend	11	**59,315**	51,233
Total equity		**945,083**	954,796

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

Notes to Financial Statements

31 December 2008

1. CORPORATE INFORMATION

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

The head office and principal place of business of the Company is located at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong.

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

2.1 BASIS OF PREPARATION

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Notes to Financial Statements

31 December 2008

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

The Group has also early adopted the following HKFRS as of 1 January 2008.

HKFRS 8	*Operating Segment effective 1 January 2009*

Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

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

(a) Amendments to HKAS 39 Financial Instruments: *Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 — *Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this interpretation had no material impact on the financial position or results of operations of the Group.

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

(c) HK(IFRIC)-*Int 12 Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation had no material impact on the financial position or results of operations of the Group.

(e) HKFRS 8 replaces HKAS 14 Segment Reporting (HKAS 14) upon its effective date. The Group early adopted this amendment as of 1 January 2008. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. HKFRS 8 disclosures are shown in Note 4, including the related revised comparative information.

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

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]

Notes to Financial Statements

31 December 2008

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

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 July 2008

[4] Effective for annual periods beginning on or after 1 October 2008

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

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

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

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

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

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

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

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

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 15 will replace HK Interpretation 3 *Revenue — Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

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

Notes to Financial Statements

31 December 2008

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

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

In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. Those amendments that are expected to have a significant impact on the Group are as follows:

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

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.

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

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

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

(e) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

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

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Goodwill

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

Goodwill on Acquisitions for which the Agreement Date is on or after 1 January 2005

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

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

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

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

Goodwill Previously Eliminated against Consolidated Retained Profits

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

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Non-financial Assets Other than Goodwill

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment and Depreciation

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets (Other than Goodwill)

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

Computer Software

The 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:

Computer software	3 to 10 years

Research and Development Costs

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

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

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Other Financial Assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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

Financial Assets at Fair Value through Profit or Loss

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

Loans and Receivables

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

Impairment of Financial Assets

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets (continued)

Assets Carried at Amortised Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

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

Assets Carried at Cost

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

Derecognition of Financial Assets

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

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

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of Financial Assets (continued)

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 Liabilities at Amortised Cost (Including Interest-bearing Bank Loans)

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

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

Financial Guarantee Contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of Financial Liabilities

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

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

Inventories

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

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

Provisions

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

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

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

Income Tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (continued)

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

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

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

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

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

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

Revenue Recognition

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits

Pension Schemes and Other Retirement Benefits

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

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

Share-based Payment Transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)

Share-based Payment Transactions (continued)

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

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

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

Borrowing Costs

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

Dividends

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

Foreign Currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currencies (continued)

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Estimation Uncertainty

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

Impairment Allowances for Trade and Other Receivables

Impairment allowances for trade and other receivables are made on assessment of the recoverability of trade and other receivables. The identification of impairment allowances requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying value of the receivables and the impairment or reversal of the receivables 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, which is in accordance with the accounting policy stated in note 2.4. The recoverable amounts of cash-generating units have been determined based on a value in use calculation. These calculations require the use of estimates such as the future revenue and discount rates.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was approximately HK$29,187,000 (2007: HK$30,110,000). More details are given in note 15.

Provisions for Product Warranties

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

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation Uncertainty (continued)

Fair Values

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

4. SEGMENT INFORMATION

The management considers the performance of the business in the PRC and non-PRC segments. The reportable operating segments derive their revenue from manufacturing and sale of wireless telecommunication network enhancement system equipment and the provision of related engineering services. All of the Group's products are of the similar nature.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group research and development costs, income taxes and corporate expenses are managed on a group basis and are not allocated to operating segments.

Year ended 31 December 2008	PRC HK$'000	Non-PRC HK$'000	Adjustments & eliminations HK$'000	Consolidated HK$'000
Revenue				
External customers	**2,222,644**	**303,251**	**—**	**2,525,895**
Results				
Depreciation and amortisation	**56,180**	**2,526**	**—**	**58,706**
Segment profit	**389,827**	**5,761**	**[1](135,606)**	**259,982**
Assets				
[4]Capital expenditure	**92,036**	**4,716**	**—**	**96,752**
Operating assets	**3,167,118**	**155,975**	**[2]129,304**	**3,452,397**
Operating liabilities	**1,426,639**	**23,727**	**[3]13,024**	**1,463,390**

1. Segment operating profit does not include research and development costs HK$132,253,000 and unallocated corporate expenses HK$3,353,000.
2. Segment assets do not include goodwill HK$29,187,000, deferred tax assets HK$100,001,000 and unallocated corporate assets HK$116,000.
3. Segment liabilities do not include deferred tax liabilities HK$6,233,000 and unallocated corporate liabilities HK$6,791,000.
4. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

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4. SEGMENT INFORMATION (continued)

Year ended 31 December 2007	PRC HK$'000	Non-PRC HK$'000	Adjustments & eliminations HK$'000	Consolidated HK$'000
Revenue				
External customers	1,631,902	136,516	—	1,768,418
Results				
Depreciation and amortisation	47,707	1,653	—	49,360
Segment profit	291,582	2,605	[1](96,423)	197,764
Assets				
[4]Capital expenditure	51,584	3,806	—	55,390
Operating assets	2,564,320	95,284	[2]99,738	2,759,342
Operating liabilities	1,029,078	12,353	[3]12,961	1,054,392

1. Segment operating profit does not include research and development costs HK$91,087,000 and unallocated corporate expenses HK$5,336,000.
2. Segment assets do not include goodwill HK$30,110,000, deferred tax assets HK$68,997,000 and unallocated corporate assets HK$631,000.
3. Segment liabilities do not include deferred tax liabilities HK$6,761,000 and unallocated corporate liabilities HK$6,200,000.
4. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

The largest customer accounted for approximately 56% (2007: 65%) of the total revenue of the year.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2008	2007
	HK$'000	HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**2,416,782**	1,726,792
Warranty services	**109,113**	41,626
	2,525,895	1,768,418
Other income and gains		
Bank interest income	**2,205**	3,046
Exchange gain, net	**–**	11,630
Government subsidy	**6,975**	5,130
Recovery of bad debts	**4,953**	–
Others	**4,950**	3,960
	19,083	23,766

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6. PROFIT BEFORE TAX

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

	Notes	**2008 HK$'000**	2007 HK$'000
Cost of inventories sold and services provided		**1,472,995**	978,765
Depreciation	13	**54,740**	44,439
Recognition of prepaid land lease payments	14	**346**	325
Amortisation of intangible assets	17	**3,620**	4,596
Minimum lease payments under operating leases in respect of land and buildings		**46,398**	28,529
Auditors' remuneration		**2,953**	2,469
Employee benefit expense (including directors' emoluments, note 8):			
Salaries and wages		**393,141**	303,546
Staff welfare expenses		**33,981**	25,727
Equity-settled share option expense		**10,807**	10,947
Pension scheme contributions#		**28,472**	22,373
		466,401	362,593
Exchange loss/(gain), net		**8,323**	(11,630)
Impairment of trade receivables	20	**17**	—
Write-down of inventories to net realisable value		**9,791**	5,790
Provisions for product warranties	27	**28,024**	48,847
Loss on disposal of items of property, plant and equipment		**746**	570
Bank interest income		**(2,205)**	(3,046)

At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2007: Nil).

7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on bank loans wholly repayable within one year	**9,094**	7,973
Interest on added confirmation of documentary credits	**4,311**	—
	13,405	7,973

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:

	2008 HK$'000	2007 HK$'000
Fees	570	540
Other emoluments:		
Salaries, allowances and benefits in kind	10,699	10,831
Performance related bonuses*	5,751	4,843
Equity-settled share option expense	2,358	1,133
Pension scheme contributions	224	208
	19,032	17,015
	19,602	17,555

* 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, directors have been granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of 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:

	2008 HK$'000	2007 HK$'000
Mr. Yao Yan	135	120
Mr. Lau Siu Ki, Kevin	135	120
Mr. Liu Cai	200	200
	470	440

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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

(b) Executive Directors

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

2007	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,097	1,031	–	12	3,140
Mr. Zhang Yue Jun	–	1,696	986	–	43	2,725
Mr. Wu Jiang Cheng	–	1,319	1,148	37	43	2,547
Mr. Yan Ji Ci	–	1,119	1,125	37	43	2,324
Mr. Zheng Guo Bao	100	1,404	–	–	43	1,547
Mr. Yeung Pui Sang, Simon	–	1,621	335	984	12	2,952
Mr. Chan Kai Leung, Clement	–	1,575	218	75	12	1,880
	100	10,831	4,843	1,133	208	17,115

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 five (2007: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one non-director, highest paid employee for last year are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**–**	2,302
Equity-settled share option expense	**–**	34
Pension scheme contributions	**–**	282
	–	2,618

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 (2007: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2008	2007
	HK$'000	HK$'000
Current year provision:		
Mainland China	**52,963**	37,129
Overseas	**857**	1,060
Deferred tax	**(26,327)**	(30,996)
Total tax charge for the year	**27,493**	7,193

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign 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 half of the applicable standard rate, subject to a minimum rate of 10%, for another three years from 1 January 2005 to 31 December 2007.

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9. TAX (continued)

In 2008, during the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and has become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an adjustment of income tax rate to 25%. The effect of this change has been reflected in the calculation of deferred income tax as at 31 December 2008. Comba Guangzhou, being a manufacturing foreign invested enterprise ("FIE"), located in Guangzhou Economic and Technology Development Zone, is eligible to enjoy the transitional arrangement under the New Corporate Income Tax Law. The income tax rate of Comba Guangzhou was 18% in 2008 and will be 20%, 22%, 24% and 25% in 2009, 2010, 2011 and 2012 respectively.

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. In addition, Comba Technology was designated as an High-New Technology Enterprise by Guangdong Science and Technology Department on 16 December 2008. Being an High-New Technology Enterprise, Comba Technology is entitled to the preferential tax rate of 10% for another three years from 1 January 2008 to 31 December 2010.

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

	2008		2007	
	HK$'000	**%**	HK$'000	%
Profit before tax	**259,982**		197,764	
Tax at the applicable tax rate	**64,995**	**25.0**	29,665	15.0
Lower tax rates for specific provinces or enacted by local authority	**(77,340)**	**(29.8)**	(17,895)	(9.0)
Effect on opening deferred tax of increase in rate	**(7,666)**	**(2.9)**	(29,454)	(14.9)
Expenses not deductible for tax	**15,532**	**6.0**	7,427	3.7
Additional deductible research and development expense	**(4,197)**	**(1.6)**	—	—
Tax losses not recognised	**36,169**	**13.9**	17,450	8.8
Tax charge at the Group's effective rate	**27,493**	**10.6**	7,193	3.6

9. TAX (continued)

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$99,642,000 (2007: HK$116,333,000) 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 2008.

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

Effective deferred tax rate in 2008 was 20% (2007: 18%).

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 2008 includes a profit of HK$35,657,000 (2007: HK$46,904,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. DIVIDEND

	2008 **HK$'000**	2007 HK$'000
Proposed final — HK 7 cents (2007: HK 6 cents) per ordinary share	**59,315**	51,233

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.

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

(continued)

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

	2008 HK$'000	2007 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**227,512**	191,619

	Number of Shares 2008	 2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**852,762,000**	849,353,000
Effect of dilution — weighted average number of ordinary shares	**2,920,000**	8,525,000
	855,682,000	857,878,000

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost or valuation	157,419	183,471	77,804	15,664	105	434,463
Accumulated depreciation	(1,677)	(90,214)	(39,525)	(9,347)	–	(140,763)
Net carrying amount	155,742	93,257	38,279	6,317	105	293,700
At 1 January 2008, net of accumulated depreciation	155,742	93,257	38,279	6,317	105	293,700
Additions	1,165	68,246	14,133	3,387	5,762	92,693
Deficit on revaluation	(2,030)	–	–	–	–	(2,030)
Disposals	–	(316)	(1,711)	(156)	–	(2,183)
Depreciation provided during the year	(6,942)	(32,743)	(12,822)	(2,233)	–	(54,740)
Exchange realignment	13,210	2,076	1,713	359	7	17,365
At 31 December 2008, net of accumulated depreciation	161,145	130,520	39,592	7,674	5,874	344,805
At 31 December 2008:						
Cost or valuation	162,990	257,158	91,162	18,930	5,874	536,114
Accumulated depreciation	(1,845)	(126,638)	(51,570)	(11,256)	–	(191,309)
Net carrying amount	161,145	130,520	39,592	7,674	5,874	344,805
Analysis of cost or valuation:						
At cost	4,116	257,158	91,162	18,930	5,874	377,240
At valuation	158,874	–	–	–	–	158,874
	162,990	257,158	91,162	18,930	5,874	536,114

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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 2007						
At 31 December 2006 and at 1 January 2007:						
Cost or valuation	137,465	146,527	62,242	13,951	–	360,185
Accumulated depreciation	(842)	(61,124)	(32,083)	(8,412)	–	(102,461)
Net carrying amount	136,623	85,403	30,159	5,539	–	257,724
At 1 January 2007, net of accumulated depreciation	136,623	85,403	30,159	5,539	–	257,724
Additions	2,678	27,819	16,705	2,059	105	49,366
Surplus on revaluation	14,910	–	–	–	–	14,910
Disposals	–	(206)	(691)	(71)	–	(968)
Depreciation provided during the year	(6,731)	(26,202)	(9,925)	(1,581)	–	(44,439)
Exchange realignment	8,262	6,443	2,031	371	–	17,107
At 31 December 2007, net of accumulated depreciation	155,742	93,257	38,279	6,317	105	293,700
At 31 December 2007:						
Cost or valuation	157,419	183,471	77,804	15,664	105	434,463
Accumulated depreciation	(1,677)	(90,214)	(39,525)	(9,347)	–	(140,763)
Net carrying amount	155,742	93,257	38,279	6,317	105	293,700
Analysis of cost or valuation:						
At cost	2,867	183,471	77,804	15,664	105	279,911
At valuation	154,552	–	–	–	–	154,552
	157,419	183,471	77,804	15,664	105	434,463

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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$158,874,000 or RMB139,878,000 (2007: HK$154,552,000 or RMB144,604,000) 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$120,987,000 at the balance sheet date. At 31 December 2008, 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 titles, were carried at cost with a net book value of approximately HK$2,271,000. A revaluation deficit of HK$2,030,000, resulting from the above valuations, has been debited to the asset revaluation reserve.

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

	2008 HK$'000	2007 HK$'000
At valuation:		
Long term leases	**7,088**	6,722
Medium term leases	**151,786**	147,830
	158,874	154,552
At cost:		
Medium term leases	**4,116**	2,867
	162,990	157,419

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**14,178**	13,525
Recognised during the year	**(346)**	(325)
Exchange realignment	**890**	978
Carrying amount at 31 December	**14,722**	14,178
Current portion included in prepayments, deposits and other receivables	**(346)**	(325)
Non-current portion	**14,376**	13,853

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

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15. GOODWILL

Group	HK$'000
Cost and net carrying amount at 1 January 2008 and 31 December 2007	30,110
Cost at 1 January 2008, net of accumulated impairment	30,110
Disposal of a minority interest of a subsidiary	(923)
Cost and net carrying amount at 31 December 2008	29,187

Impairment Testing of Goodwill

Goodwill acquired through business combinations has been allocated to the wireless telecommunications equipments cash-generating units for impairment testing.

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least five-year period approved by management. The discount rate applied to the cash flow projections is approximately 14%.

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

16. DEFERRED TAX

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

Deferred Tax Assets

Group	Unrealised profit arising on consolidation HK$'000
At 1 January 2007	34,232
Deferred tax credited to the income statement during the year (note 9)	30,996
Exchange realignment	3,769
At 31 December 2007	68,997
Deferred tax credited to the income statement during the year (note 9)	26,327
Exchange realignment	4,677
At 31 December 2008	100,001

16. DEFERRED TAX (continued)

Deferred Tax Liabilities

Group	Revaluation of properties HK$'000
At 1 January 2007	–
Deferred tax debited to equity during the year	6,761
At 31 December 2007	6,761
Deferred tax credited to equity during the year	(913)
Exchange realignment	385
At 31 December 2008	6,233

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17. INTANGIBLE ASSETS

Group	Computer software HK$'000
31 December 2008	
Cost at 1 January 2008, net of accumulated amortisation	**7,124**
Additions	**4,059**
Amortisation provided during the year	**(3,620)**
Exchange realignment	**436**
At 31 December 2008	**7,999**
At 31 December 2008:	
Cost	**26,520**
Accumulated amortisation	**(18,521)**
Net carrying amount	**7,999**
31 December 2007	
At 1 January 2007:	
Cost	14,052
Accumulated amortisation	(8,802)
Net carrying amount	5,250
Cost at 1 January 2007, net of accumulated amortisation	5,250
Additions	6,024
Amortisation provided during the year	(4,596)
Exchange realignment	446
At 31 December 2007	7,124
At 31 December 2007 and at 1 January 2008:	
Cost	21,111
Accumulated amortisation	(13,987)
Net carrying amount	7,124

18. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**380,101**	374,728
Financial guarantees granted to subsidiaries (note 31)	**5,914**	2,697
	386,015	377,425

The amounts due from subsidiaries included in the Company's current assets of HK$401,200,000 (2007: HK$351,200,000) are unsecured, interest-free and are repayable on demand or within one year. The loan to the subsidiary of HK$170,455,000 (2007: HK$234,436,000) is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands	US$100	100	–	Investment holding
Praises Holdings Limited	British Virgin Islands	US$100	–	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	–	100	Investment holding and trading
Comba Telecom Systems (Guangzhou) Limited 京信通信系統（廣州）有限公司*	PRC/ Mainland China	HK$45,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom 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	SG$2	–	100	Provision of marketing services

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Cascade Technology Limited	British Virgin Islands	US$1	–	100	Investment holding
WaveLab Holdings Limited▲	Cayman Islands	US$1,000	–	57	Investment holding
WaveLab, Inc.▲	State of Virginia/ United States of America	No par value	–	57	Research and development of digital microwave system equipment
WaveLab Asia Holdings Limited▲	British Virgin Islands	US$1	–	57	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司*▲	PRC/ Mainland China	US$3,267,000	–	57	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

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Telink Telecom (China) Limited 泰聯電訊（中國）有限公司*	PRC/ Mainland China	HK$50,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment
DigiLab Holdings Company Limited	British Virgin Islands	US$1,000	–	63	Investment holding
DigiLab Company Limited 廣州高域通信技術有限公司*▼	PRC/ Mainland China	HK$7,100,000	–	63	Manufacture and sale of transmission equipment
Right Track Technology Limited	British Virgin Islands	US$1	–	100	Dormant
Comba Telecom Limited	Hong Kong	HK$2	–	100	Trading of wireless telecommunications network enhancement system equipment
Comba Telecom Co., Ltd.	Thailand	THB2,000,000	–	100	Trading of wireless telecommunications network enhancement system equipment
Comban Telecom Systems AB	Sweden	SEK100,000	–	100	Provision of marketing services
Noblefield International Limited	British Virgin Islands	US$1	–	100	Investment holding

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the 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
Comba Telecom Inc.	United States of America	US$1	–	100	Research and development and trading of wireless telecommunications network enhancement system equipment
Comba Software Technology (Guangzhou) Limited 京信軟件科技（廣州）有限公司*	PRC/ Mainland China	HK$10,000,000	–	100	Provision of software technology services
Comba Comercio de Equipamentos de Telecomunicacoes Ltda	Brazil	BRL446,459	–	100	Trading of wireless telecommunications network enhancement system equipment
Guangzhou Taipu Wireless Telecommunication Equipment Co. Limited*	PRC/ Mainland China	RMB1,000,000	–	100	Trading of wireless telecommunications network enhancement system equipment
Wavelab Limited#▲	Hong Kong	HK$1	–	57	Dormant
Comba Telecom Pakistan (Private) Limited#	Pakistan	PKR1,000,000	–	100	Dormant

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Notes:

These subsidiaries were set up during the year.

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

▲ On 31 December 2008, the Group effectively disposed 3% share of these subsidiaries to its employees for a cash consideration of HK$2.

▼ This subsidiary was in liquidation.

19. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**124,044**	63,702
Project materials	**88,691**	81,247
Work in progress	**120,234**	53,663
Finished goods	**221,446**	164,442
Inventories on site	**498,043**	391,712
	1,052,458	754,766

20. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**1,289,013**	1,120,422
Impairment	**(16,152)**	(20,779)
	1,272,861	1,099,643

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

20. TRADE RECEIVABLES (continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 3 months	**660,816**	573,754
4 to 6 months	**149,900**	68,257
7 to 12 months	**186,478**	192,888
More than 1 year	**291,819**	285,523
	1,289,013	1,120,422
Provision for impairment	**(16,152)**	(20,779)
	1,272,861	1,099,643

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**20,779**	20,939
Impairment losses recognised (note 6)	**17**	—
Amount written off as uncollectible	**(617)**	(1,240)
Impairment losses reversed	**(4,953)**	—
Exchanged realignment	**926**	1,080
	16,152	20,779

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

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20. TRADE RECEIVABLES (continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**1,174,686**	969,831
Less than 1 year past due	**95,901**	79,508
	1,270,587	1,049,339

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

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

21. NOTES RECEIVABLE

At 31 December 2007, the Group had endorsed commercial notes of approximately HK$5,107,000 to certain suppliers with recourse. The endorsed commercial notes were included in the balance of notes receivable because the derecognition criteria for financial assets were not met. Accordingly, the settlement to the relevant suppliers of approximately HK$5,107,000 received by the Group as a consideration for the endorsed commercial notes at the balance sheet date was recognised as a liability and included in "Trade and bills payables" (note 24). At 31 December 2008, there were no commercial note endorsed.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**29,726**	25,629	**39**	38
Deposits	**24,605**	3,935	**—**	—
Other receivables	**67,488**	51,838	**—**	—
	121,819	81,402	**39**	38

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

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**467,133**	374,181	**78**	594
Time deposits	**6,291**	6,181	**–**	–
	473,424	380,362	**78**	594
Less:				
Restricted bank deposits for performance bonds	**(5,258)**	(5,866)	**–**	–
Cash and cash equivalents	**468,166**	374,496	**78**	594

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$400,661,000 (2007: HK$333,343,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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24. TRADE AND BILLS PAYABLES

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 3 months	**709,727**	311,449
4 to 6 months	**126,072**	152,563
7 to 12 months	**49,162**	60,944
More than 1 year	**37,747**	23,513
	922,708	548,469

The trade payables are non-interest-bearing and are mainly settled for a period of three months and are extendable up to two years. At 31 December 2007, the Group had endorsed commercial notes of approximately HK$5,107,000 to certain suppliers with recourse as a settlement of the payable balance. The settlement to the relevant suppliers of approximately HK$5,107,000 was recognised as a liability and included in the above balance. At 31 December 2008, there were no commercial notes to any suppliers with recourse as a settlement of the payable balance.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**134,951**	90,028	**3,209**	2,695
Deposits received	**115,280**	124,639	**—**	—
Other payables	**150,640**	127,029	**3,581**	3,505
	400,871	341,696	**6,790**	6,200

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

26. INTEREST-BEARING BANK BORROWINGS

All the bank loans at 31 December 2008 and 31 December 2007 were unsecured. Loans denominated in Hong Kong dollars amounted to HK$46,500,000 and a loan denominated in United States dollars amounted to HK$4,744,000. The bank loans bear interest at rates ranging from 1.05% to 6.57% (2007: from 3.00% to 6.48%) per annum.

27. PROVISIONS FOR PRODUCT WARRANTIES

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**40,066**	26,039
Additional provisions	**28,024**	48,847
Amounts utilised during the year	**(42,071)**	(36,017)
Exchange realignment	**2,512**	1,197
At 31 December	**28,531**	40,066

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.

28. SHARE CAPITAL

	2008	2007
Shares	**HK$'000**	HK$'000
Authorised:		
5,000,000,000 (2007: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
847,351,500 (2007: 853,891,500) ordinary shares of HK$0.10 each	**84,735**	85,389

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

(a) The subscription rights attaching to 1,476,000 share options were exercised at the subscription prices of HK$2.25 to HK$2.625 per share (note 29), resulting in issue of 1,476,000 shares of HK$0.10 each for a total cash consideration, before expenses of HK$3,329,000.

(b) 8,016,000 shares were repurchased at the prices ranging HK$0.95 to HK$1.10 with a cash consideration of HK$8,233,000.

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28. SHARE CAPITAL (continued)

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2007	840,411,000	84,041	340,570	424,611
Share options exercised	13,480,500	1,348	36,938	38,286
At 31 December 2007 and 1 January 2008	853,891,500	85,389	377,508	462,897
Share options exercised	1,476,000	148	4,069	4,217
Repurchase of shares	(8,016,000)	(802)	(7,431)	(8,233)
At 31 December 2008	**847,351,500**	**84,735**	**374,146**	**458,881**

Share Options

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

29. SHARE OPTION SCHEME

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

29. SHARE OPTION SCHEME (continued)

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

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

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

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

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

	2008		2007	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At 1 January	**3.10**	**60,408**	2.97	69,879
Granted during the year	**1.46**	**58,000**	2.88	6,600
Forfeited during the year	**3.36**	**(1,903)**	3.40	(2,591)
Exercised during the year	**2.26**	**(1,476)**	2.29	(13,480)
Expired during the year	**2.25**	**(12,457)**	—	—
At 31 December	**2.28**	**102,572**	3.10	60,408

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.71 (2007: HK$3.62).

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29. SHARE OPTION SCHEME (continued)

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

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

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

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

29. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was HK$23,816,000 (HK$0.4106 each) (2007: HK$4,528,000, HK$0.6861 each) of which the Group recognised a share option expense of HK$10,807,000 (2007: HK$10,947,000) during the year ended 31 December 2008.

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

	2008		2007
Grant date	**21 July 2008**	**4 November 2008**	8 March 2007
Dividend yield (%)	**2.8**	**8.6**	2.5
Expected volatility (%)	**50**	**56**	43
Risk-free interest rate (%)	**2.858**	**1.136**	4.021
Expected life of options (year)	**3**	**3**	3
Closing share price at date of grant (HK$)	**2.16**	**0.7**	2.88

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

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

The 1,476,000 share options exercised during the year resulted in the issue of 1,476,000 ordinary shares of the Company and new share capital of HK$148,000 and share premium of HK$4,069,000, as detailed in note 28 to the financial statements.

At the balance sheet date, the Company had 102,572,000 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 102,572,000 additional ordinary shares of the Company and additional share capital of HK$10,257,000 and share premium of HK$223,562,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 102,327,000 share options outstanding under the Scheme, which represented approximately 12% of the Company's shares in issue as at that date.

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30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 44 and 45 of the financial statements.

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

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus* HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		340,570	373,108	46,962	–	21,858	782,498
Issue of shares	28	36,938	–	(7,437)	–	–	29,501
Profit for the year		–	–	–	–	46,904	46,904
Adjustment arising from lapse of share options		–	–	(1,245)	–	1,245	–
Equity-settled share option expenses	29	–	–	10,947	–	–	10,947
Under-provision of final 2006 dividend		–	–	–	–	(443)	(443)
Proposed final 2007 dividend	11	–	–	–	–	(51,233)	(51,233)
At 31 December 2007		377,508	373,108	49,227	–	18,331	818,174
Issue of shares	28	**4,069**	**–**	**(888)**	**–**	**–**	**3,181**
Repurchase of shares	28	**(7,431)**	**–**	**–**	**762**	**(802)**	**(7,471)**
Profit for the year		**–**	**–**	**–**	**–**	**35,657**	**35,657**
Adjustment arising from lapse of share options		**–**	**–**	**(621)**	**–**	**621**	**–**
Equity-settled share option expenses	29	**–**	**–**	**10,807**	**–**	**–**	**10,807**
Share options cancelled at expiry date	29	**–**	**–**	**(7,495)**	**–**	**7,495**	**–**
Proposed final 2008 dividend	11	**–**	**–**	**–**	**–**	**(59,315)**	**(59,315)**
At 31 December 2008		**374,146**	**373,108**	**51,030**	**762**	**1,987**	**801,033**

* 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 therefore. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus under certain circumstances.

31. CONTINGENT LIABILITIES

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in respect of performance bonds	**21,678**	5,866	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**280,550**	241,400
	21,678	5,866	**280,550**	241,400

As at 31 December 2008, 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$51,244,000 (2007: HK$27,872,000). The carrying amount of the financial guarantee contracts recognised in the Company's balance sheet in accordance with the HKAS 39 and HKFRS 4 Amendments was HK$5,914,000 (2007: HK$2,697,000). The financial guarantee contracts were eliminated on consolidation.

On 22 January 2009, the Group entered into a standby letter of credit (Performance Bank Guarantee) under the request of its customer in support of the due and proper performance of the obligations undertaken by the Group. The guarantee is scheduled to continue until 31 March 2011, and is expected to result in a contingent liabilities of approximately HK$12,400,000.

32. OPERATING LEASE ARRANGEMENTS

As Lessee

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

At 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**25,185**	23,452	**–**	–
In the second to fifth years, inclusive	**21,983**	20,448	**–**	–
After five years	**18,606**	12,440	**–**	–
	65,774	56,340	**–**	–

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33. COMMITMENTS

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted, but not provided for:				
Furniture and fixtures	**413**	–	**–**	–
Plant and machinery	**3,046**	183	**–**	–
Intangible assets	**418**	90	**–**	–
	3,877	273	**–**	–

34. RELATED PARTY TRANSACTIONS

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

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

	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**17,020**	16,214
Post-employment benefits	**224**	208
Equity-settled share option expense	**2,358**	1,133
Total compensation paid to key management personnel	**19,602**	17,555

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

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Group	
	2008	2007
Financial assets	**Loans and receivables HK$'000**	Loans and receivables HK$'000
Trade receivables	**1,272,861**	1,099,643
Notes receivable	**35,467**	29,385
Financial assets included in prepayments, deposits and other receivables (note 22)	**92,093**	55,773
Restricted bank deposits	**5,258**	5,866
Cash and cash equivalents	**468,166**	374,496
	1,873,845	1,565,163

	2008	2007
Financial liabilities	**Financial liabilities at amortised cost HK$'000**	Financial liabilities at amortised cost HK$'000
Trade and bills payables	**922,708**	548,469
Financial liabilities included in other payables and accruals (note 25)	**150,640**	127,029
Interest-bearing bank borrowings	**51,244**	88,794
	1,124,592	764,292

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35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

	Company	
Financial assets	**2008**	2007
	HK$'000	HK$'000
Cash and cash equivalents	**78**	594

Financial liabilities	**2008**	2007
	HK$'000	HK$'000
Financial liabilities included in other payables and accruals (note 25)	**3,581**	3,505
Financial guarantee contracts	**5,914**	2,697
	9,495	6,202

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term receivables.

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

	Increase/ (decrease) in interest rate basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2008			
If Hong Kong dollar	**50**	**(1,459)**	**–**
If Hong Kong dollar	**(50)**	**1,459**	**–**
2007			
If Hong Kong dollar	50	(1,428)	–
If Hong Kong dollar	(50)	1,428	–

* Excluding retained earnings

Foreign Currency Risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 10% (2007: 6%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 95% (2007: 96%) of costs are denominated in the units' functional currency.

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

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2008			
If Hong Kong dollar weakens against US$	**5**	**3,436**	**–**
If Hong Kong dollar strengthens against US$	**(5)**	**(3,436)**	**–**
2007			
If Hong Kong dollar weakens against US$	5	1,961	–
If Hong Kong dollar strengthens against US$	(5)	(1,961)	–

* Excluding retained earnings

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is minimal. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the balance sheet date, the Group has certain concentrations of credit risk as 39 % (2007: 48%) and 90% (2007: 95%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, within the PRC segment.

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

Liquidity Risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and other interest-bearing borrowings. In addition, banking facilities have been put in place for contingency purpose. The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

	2008			2007
Group	**Within 1 year**	**1 to 5 years**	**Total**	Within 1 year
	HK$'000	**HK$'000**	**HK$'000**	HK$'000
Interest-bearing bank and other borrowings	**47,494**	**3,750**	**51,244**	88,794
Trade and bills payables	**922,708**	**—**	**922,708**	548,469
Other payables and accruals	**400,871**	**—**	**400,871**	341,696
	1,371,073	**3,750**	**1,374,823**	978,959

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital Management

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

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

Group	**2008** **HK'000**	2007 HK'000
Interest-bearing bank borrowings	**51,244**	88,794
Total assets	**3,452,397**	2,759,342
Gearing ratio	**1.5%**	3.2%

37. POST BALANCE SHEET EVENT

The Board proposes to increase the share capital of the Company by capitalising the share premium of the Company, pursuant to which bonus shares will be allotted and issued to the shareholders, whose names appear on the register of member of the Company on 2 June 2009, on the basis of 1 bonus share for every 10 ordinary shares held by the shareholders. Based on a total of 847,351,500 shares in issue as at 31 December 2008, 84,735,150 bonus shares will be issued by the Company. The share capital of the Company will increase from HK$84,735,000 to HK$93,209,000 upon completion of the bonus issue.

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

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2009.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified upon the adoption of the new and revised HKFRSs as appropriate, is set out below:

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**2,525,895**	1,768,418	1,550,441	1,170,515	1,092,761
Cost of sales	**(1,579,861)**	(1,087,161)	(963,901)	(696,189)	(529,382)
Gross profit	**946,034**	681,257	586,540	474,326	563,379
Other income	**19,083**	23,766	11,799	8,851	8,705
Research and development costs	**(132,253)**	(91,087)	(76,267)	(62,509)	(37,057)
Selling and distribution costs	**(185,811)**	(134,953)	(107,472)	(86,955)	(69,391)
Administrative expenses	**(370,112)**	(271,712)	(243,942)	(223,000)	(211,147)
Other expenses	**(3,554)**	(1,534)	(6,954)	(3,454)	(8,342)
Finance costs	**(13,405)**	(7,973)	(15,918)	(21,480)	(9,531)
PROFIT BEFORE TAX	**259,982**	197,764	147,786	85,779	236,616
Tax	**(27,493)**	(7,193)	(16,561)	(7,315)	(6,031)
PROFIT FOR THE YEAR	**232,489**	190,571	131,225	78,464	230,585
Attributable:					
Equity holders of the parent	**227,512**	191,619	131,140	82,089	237,478
Minority interests	**4,977**	(1,048)	85	(3,625)	(6,893)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**3,452,397**	2,759,342	2,416,552	2,182,236	1,828,652
TOTAL LIABILITIES	**(1,463,390)**	(1,054,392)	(1,009,693)	(986,921)	(716,384)
MINORITY INTERESTS	**(14,468)**	(6,694)	(7,742)	(7,657)	(11,282)
	1,974,539	1,698,256	1,399,117	1,187,658	1,100,986

Comba
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