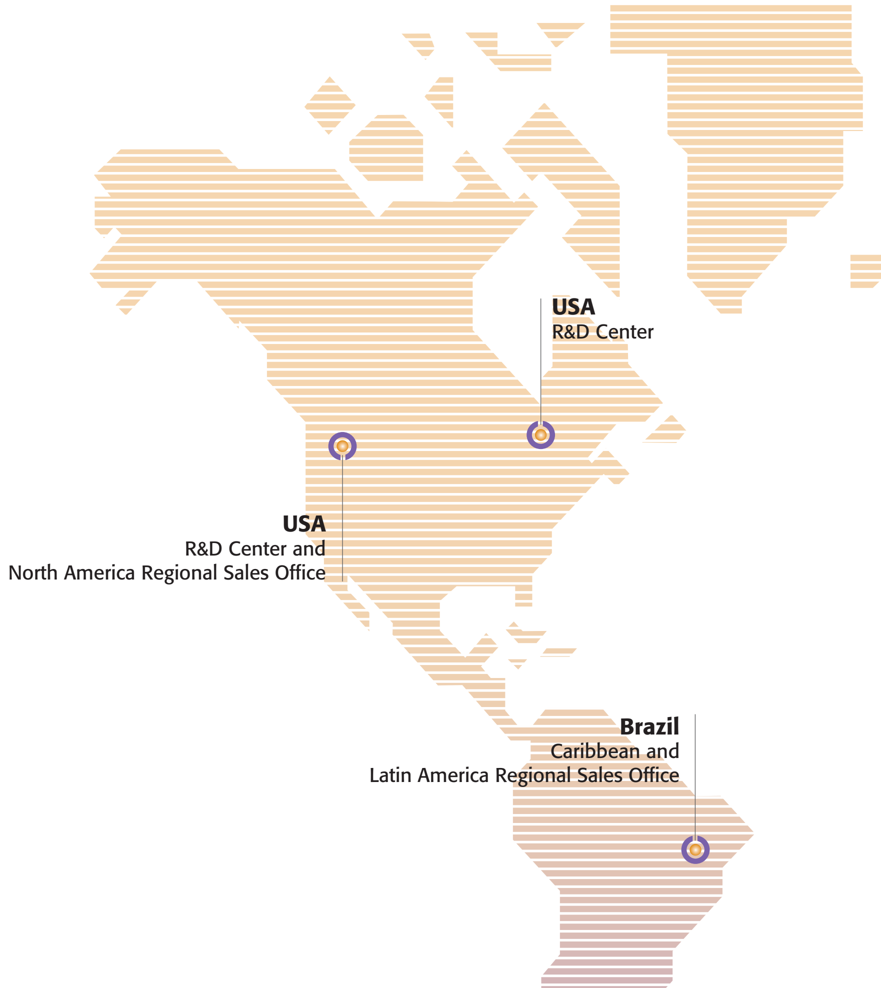
Comba
京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited
股份編號 Stock Code : 2342

2010
年報 Annual Report

Promoting growth with innovation
Seizing opportunities with technology
用創新推動成長 憑科技再取先機

Contents

Corporate Information



REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

611 East Wing
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Hong Kong Science Park
Tai Po
Hong Kong

COMPANY SECRETARY

Tong Chak Wai, Wilson

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin
Yao Yan
Liu Cai

AUTHORIZED REPRESENTATIVES

Fok Tung Ling
Tong Chak Wai, Wilson

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

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Central
Hong Kong

Svenska Handelsbanken AB (publ) Hong Kong Branch
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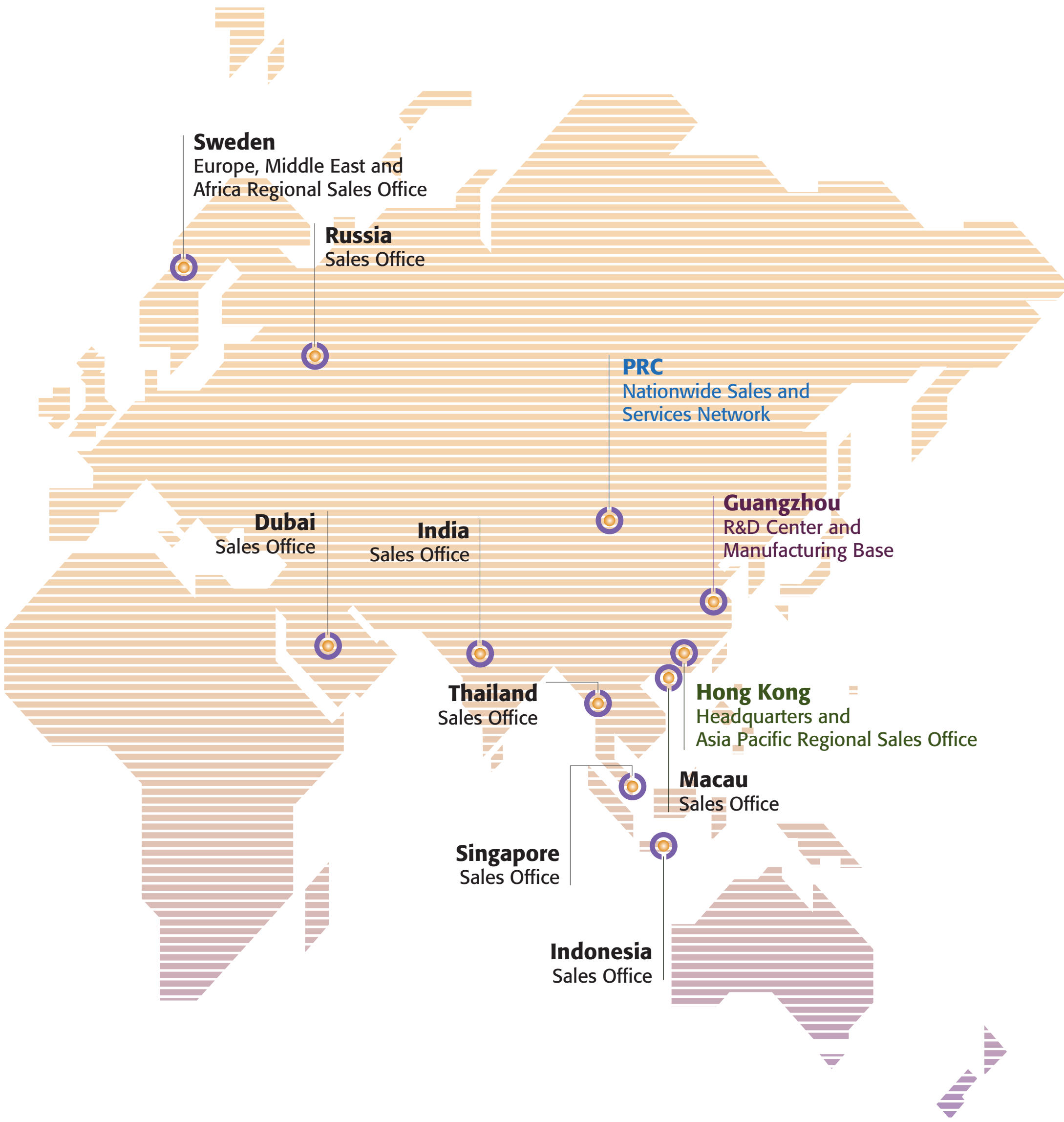
Central
Hong Kong

Corporate Information



Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
13th Floor Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

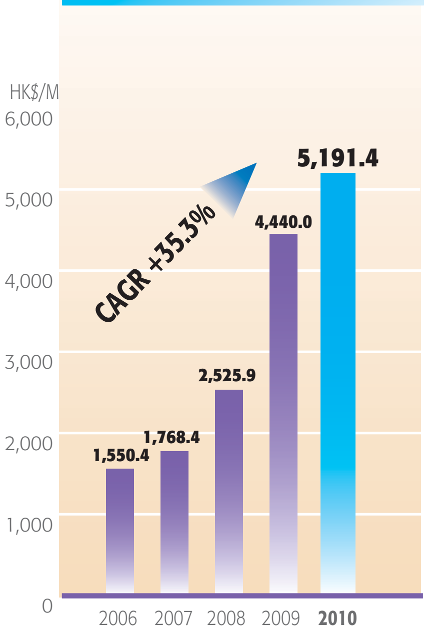
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road
GETD District
Guangzhou, PRC

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

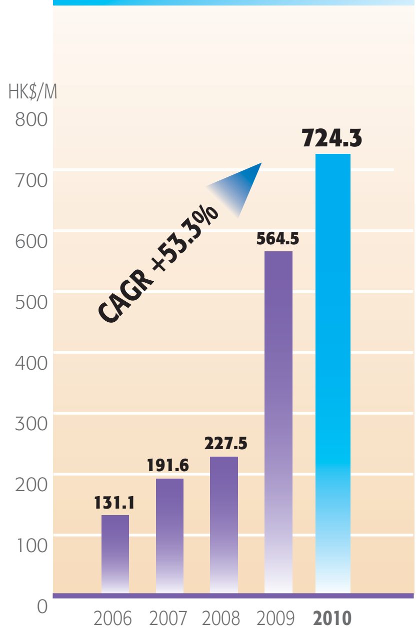
China Merchants Bank Co., Ltd.
Guangdong Branch Gaoxin Sub-branch
1 Huajing Road, 1st Floor, Southern Communication Plaza
Guangzhou, PRC

Financial Summary

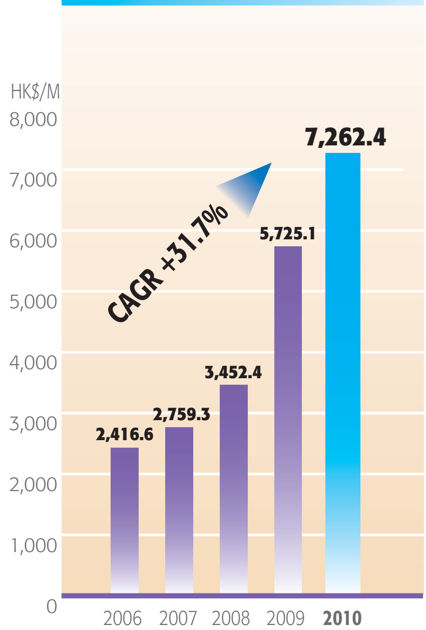
Revenue



Profit Attributable to Shareholders

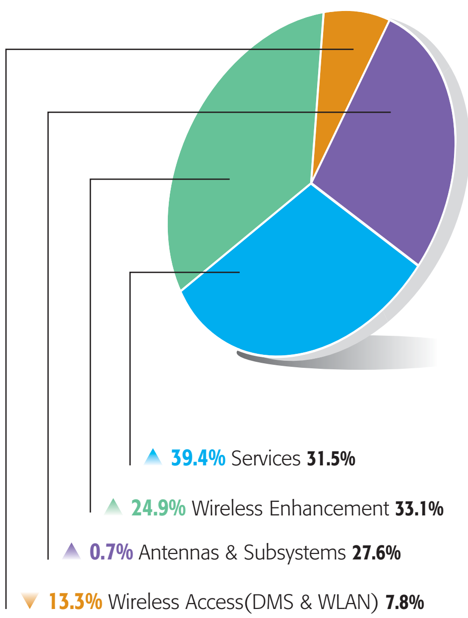


Total Assets



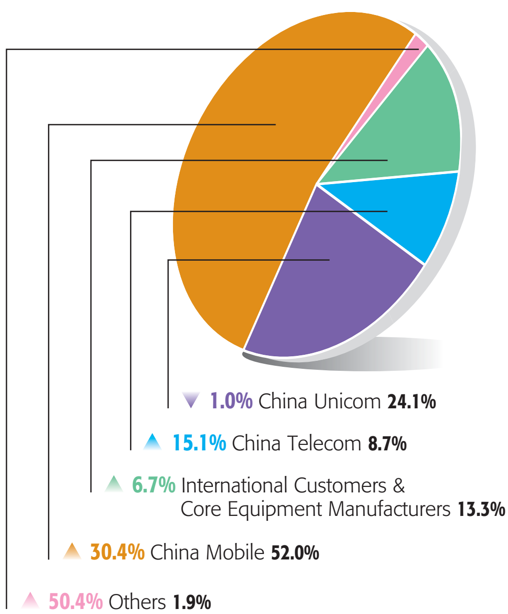
Revenue Breakdown by Businesses

▲ / ▼ = YoY change



Revenue Breakdown by Customers

▲ / ▼ = YoY change



Financial Summary

FINANCIAL SUMMARY

For the year ended 31 December	2010 HK$'000	2009 HK$'000	Change
Revenue	**5,191,358**	4,439,991	+16.9%
Gross profit	**1,939,700**	1,681,923	+15.3%
Operating profit	**877,520**	765,331	+14.7%
Profit attributable to shareholders	**724,326**	564,500	+28.3%
Basic EPS (HK cents)	**55.47**	44.70(restated)	+24.1%
Paid interim dividend per ordinary share (HK cents)	**6.0**	6.0	N/A
Proposed final dividend per ordinary share (HK cents)	**8.0**	8.0	N/A
Proposed special dividend per ordinary share (HK cents)	**4.0**	4.0	N/A
Total dividends (HK cents)	**18.0**	18.0	N/A
Issued bonus of shares (interim)	**1 for 10**	1 for 10	N/A
Proposed bonus issue of shares (final)	**1 for 10**	1 for 10	N/A
Operating cash flows	**470,967**	484,926	-2.9%

KEY FINANCIAL FIGURES

As at 31 December	2010 HK$'000	2009 HK$'000	Change
Total assets	**7,262,426**	5,725,107	+26.9%
Net assets (before non-controlling interests)	**3,239,524**	2,536,342	+27.7%
Net assets value per ordinary share (HK dollars)	**2.45**	1.97(restated)	+24.4%
Cash and bank balances	**1,493,587**	1,162,412	+28.5%
Net Cash	**880,084**	706,780	+24.5%
Total liabilities	**3,953,401**	3,131,992	+26.2%
Current ratio	**1.9X**	1.8X	+0.1%pts
Inventory turnover days	**187**	176	+11 days
A/R turnover days	**176**	139	+37 days
A/P turnover days	**221**	179	+42 days
Return on average equity	**25.1%**	25.0%	+0.1% pts
Gross gearing ratio	**8.2%**	7.7%	+0.5% pts
Dividend payout ratio*	**32.4%**	33.3%#	-0.9% pts

* *Calculation is based on basic EPS.*

\# *Calculation is based on the number of shares issued as at 31 December 2009.*

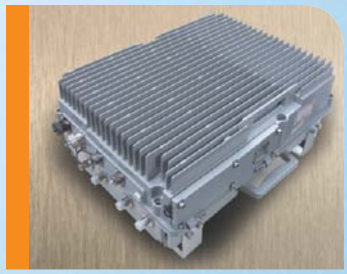
Corporate Milestone 2010

- Successfully conducted the trial operation of the first TBS in Shenzhen.

- Successfully developed the first enterprise-level FEMTO.

- The first trial of PTN Microwave in China was well received among the customers.

- The Group launched Multi-Mode RRU products that were in great demand.



- Designated as the sole base station antenna supplier in Latin America's first LTE network trials.

- Successfully supplied OEM product — 80W 850MHz RRH to Alcatel-Lucent.

- Comba began to draw up the business strategy for TBS MCPA in AT&T in Miami for the first time.

- Comba's Brazil operations won a government project in Rio de Janiero worth over US$20 million.

- Grew to become the majority wireless enhancement solutions supplier to Turkish operator Turkcell.

- Successfully completed the wireless coverage of Shanghai World Expo. The system overcame the challenge of high volume (1.03 million visitors on a single day) of visitor traffic.

- Successfully completed the coverage of Haixinsha Plaza — the center stage for the opening and closing ceremonies of the Asian Games; guaranteeing quality services through out the Asian Games.

- The Group successfully won the tender of the project for providing coverage to the Taiyuan-Zhongwei-Yinchuan High Speed Rail. This is Comba's first GSM+WCDMA coverage project for high speed rails and another significant breakthrough for the Group following the Wuhan Guangzhou High Speed Rail project.

- Comba obtained a 3-year term loan of US$130 million.

- The Company attained the great honour of "State Recognized Enterprise Technology Center".

- Elected as "Asia's Top Companies" in Finance Asia's 10th annual poll.

- Elected by Forbes, an internationally renowned finance and economic magazine, in the 6th "Asia's 200 Best Under A Billion" for the second consecutive year.

Chairman's Statement

Chairman and President | Fok Tung Ling

17%

HK$5,191,358,000

Revenue

Driven by the global economic recovery in 2010, the development of the global telecommunications industry rallied. The telecommunications industry in the PRC continued to manage a stable and healthy development while the telecommunications operators actively promoted the transformation of the industry, leading to a steady 3G networks rollout and business development, and a robust growth of the mobile internet business.

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 2010 (the "Current Year").

Driven by the global economic recovery in 2010, the development of the global telecommunications industry rallied. The telecommunications industry in the PRC continued to manage a stable and healthy development while the telecommunications operators actively promoted the transformation of the industry, leading to a steady 3G networks rollout and business development, and a robust growth of the mobile internet business. Notwithstanding the domestic telecommunications operators delayed 3G network build-outs and enhancement projects in the first half of the year, the number of 3G users increased rapidly. As at the end of 2010, the number of mobile phone users in Mainland China increased to over 860 million, which led to a strong market demand for network construction, upgrade and enhancement. In order to capture the market opportunities, the Group has continuously adhered to the belief of "promoting growth with innovation" by developing creative products and optimizing the product profile so as to provide cost-efficient solutions to our customers. Moreover, the Group has followed stringent internal management procedures and continued to improve the production efficiency in order to achieve economies of scale and consequently the Group's annual results for the Current Year hit a record high again.

Chairman's Statement

During the Current Year, the Group's turnover increased by 16.9% over the year ended 31 December 2009 to HK$5,191,358,000. Profit attributable to the shareholders grew by 28.3% to HK$724,326,000. The board of directors of the Company (the "Board") recommended distributing total dividends for the Current Year of HK12 cents. In addition, 1 new ordinary share of HK10 cents will be issued for every 10 ordinary shares held.

During the Current Year, the Group continued to invest in research and development and introduced a series of innovative products and solutions which met the market demand, contributing to the increase in the sales as well as the enhancement of brand reputation of the Group.

In 2010, the Group successfully secured a majority share of order of TD phrase 4 smart antennas from China Mobile Communications Corporations ("China Mobile") with its TD smart antennas. Moreover, our LTE base station antennas have been deployed by a major operator in Latin America for LTE field trial. In respect of new products, the first enterprise-level Femto of the Group has successfully passed the product test while a series of innovative products including Multi-Mode RRU, PTN Microwave and TBS have launched into the market and gained enthusiastic responses from the customers. All of these revealed the advanced technology and stability of our products.

In 2010, the Group successfully completed the wireless coverage projects for Shanghai World Expo and Wuhan Guangzhou High Speed Rail and our unique and innovative products and solutions with high effectiveness won recognition from our customers. Following the Beijing Olympic Games and Shanghai World Expo, the Group successfully acquired orders for the mobile communication coverage project for a number of major gymnasiums and ancillary facilities of Guangzhou 2010 16th Asian Games during the Current Year, vividly evidencing the exceptional quality of the products and services of the Group.

Leveraging on the success of a number of coverage projects for the high speed railway as well as the competitive strengths of our products and services, the Group successfully acquired some more wireless coverage projects for high speed railway. These projects are currently under construction.

During the year under review, three major businesses of the Group, namely wireless enhancement business, antennas and subsystems business, and services business, recorded a good performance, among which wireless enhancement business experienced a growth of 24.9% in the year. The growth was mainly due to the rapid increase in the number of mobile phone users in the PRC, leading to continuous contributions by telecommunications operators to enhance 2G and 3G networks and thus boosting the sales of the products of the Group. Furthermore, the Group endeavours to provide total telecommunication network solutions to our customers and offer diversified services to them through our expanding service team. Hence, the services business of the Group in the Current Year increased significantly by 39.4% to HK$1,632,175,000. However, due to the changing market environment in the Indian market, wireless access (DMS and WLAN) business of the Group dropped 13.3% to HK$404,092,000. Nonetheless, the Group resumed the shipment to India in the fourth quarter last year, supplying wireless communication equipment to a local leading telecommunications operator. The stable performance of the antennas and subsystems products as well as the good cost-effectiveness of the Group gained wide recognition from our customers and hence the antennas and subsystems business continued to generate stable revenue to the Group.

The Group performed satisfactorily in the international markets, such as Latin America, and South America, with the gradual global economic recovery. Sales from the international customers and core equipment manufacturers increased by 6.7% to HK$690,603,000. During the Current Year, the Group acquired from various leading overseas telecommunications operators a number of network enhancement, wireless solutions or product supply solutions orders, revealing an increasing brand awareness of Comba in the international market. At the same time, the Group also continued to boost the revenue contributed by the international market through OEM and ODM.

In respect of the international capital market, Comba was well supported by the investors and was officially included as a constituent stock and categorized as information technology industry by Hang Seng Indexes Company Limited effective from 8 March 2010. This fully highlighted the leading position of the Group. Furthermore, the Group also received various international corporate awards in the year which demonstrated our quality management and stringent corporate governance has gained wide recognition from investors and motivated the Group to keep on striving for the best.

Looking forward, the global economic recovery will fuel the development of telecommunications industry. The Group remains optimistic yet prudent to the 2011 market environment and will continue to actively develop more new products, expand the market and strengthen the service quality so as to consolidate the Group's leading position in the industry. Following the rapid expansion in the number of mobile phone users, there is a strong demand for the network enhancement of the operators. In addition, pursuant to the "Twelfth Five-year Plan" of the PRC, information, communication and technology industry is clearly defined as one of the seven strategic emerging industries of the PRC in the next five years and substantial development and upgrade of the technological standard is expected. Therefore, we believe that there are enormous potential business opportunities.

In respect of the international market, the Group will actively expand the sales network, devote more effort on marketing, further expand and strengthen more international markets, and fully enhance the brand awareness of the Group and the market penetration rate.

'Promoting growth with innovation; seizing opportunities with technology.' We believe that sustainable development can only be achieved by continuous innovation. Therefore, the Group will keep on strengthening the research and development capability, accelerating the launch of innovative products and overall solutions to satisfy the needs of different customers. Meanwhile, the Group will capture more opportunities as supported by its development strategy and investment in research and development. Currently, the research and development base at the Group's headquarter is having its Phase II construction work and is expected to commence operation at the end of 2011, thereby boosting the R&D capabilities of the Group. Furthermore, some of the operators started the commercial testing of the fourth-generation mobile technology in seven cities across the country. The Group has seized this opportunity and actively co-operated with the operators to develop the next generation of smart antenna. It is believed that the Group can still maintain the position as a key supplier in close partnership with operators in the construction of their subsequent network.

Last but not least, I would like to thank all staff of the Group for their dedicated commitment in the year, and customers, business partners and shareholders for their support. The Group is well-poised to grasp the future market opportunity to ensure a stable business growth and create higher value for the shareholders.

Fok Tung Ling
Chairman and President
Hong Kong
25 March 2011

Management Discussion and Analysis

28%

HK$724,326,000

Net Profit

Benefiting from the sales growth, realization of economies of scale and tax expenses reduction, net profit of the Group hits record high.

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2010 (the "Current Year") was HK$5,191,358,000 (2009: HK$4,439,991,000), representing an increase of 16.9% over the revenue for the year ended 31 December 2009 (the "Prior Year"). The increase was mainly due to the continuous strong growth of the revenue from the PRC mobile operators.

Since the restructuring of the telecommunications industry and the issuance of the 3G licenses in the PRC, the Group has benefited from the continuous wireless enhancement of the existing 2G and 3G mobile networks.

By customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") increased significantly by 30.4% to HK$2,696,890,000 (2009: HK$2,068,756,000) and accounted for 52.0% of the Group's revenue in the Current Year, compared to 46.6% in the Prior Year.

Revenue generated from China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") decreased slightly by 1.0% to HK$1,250,247,000 (2009: HK$1,263,405,000) and accounted for 24.1% of the Group's revenue in the Current Year, compared to 28.5% in the Prior Year.

Revenue generated from China Telecom Corporation and its subsidiaries ("China Telecom Group") increased significantly by 15.1% to HK$453,432,000 (2009: HK$394,009,000) and accounted for 8.7% of the Group's revenue in the Current Year, compared to 8.9% in the Prior Year.

Among which, revenue generated from the PRC 3G mobile networks increased slightly by 2.9% to HK$1,481,000,000 (2009: HK$1,440,000,000) and accounted for 28.5% of the Group's revenue in the Current Year, compared to 32.4% in the Prior Year.

Revenue generated from international customers and core equipment manufacturers also increased by 6.7% to HK$690,603,000 (2009: HK$647,204,000) and accounted for 13.3% of the Group's revenue in the Current Year, compared to 14.6% in the Prior Year. The increase in revenue was mainly due to the increases in global demand and market share while offset by the decrease in wireless access equipment.

By businesses

Revenue generated from wireless enhancement business in the Current Year increased by 24.9% to HK$1,720,333,000 (2009: HK$1,377,802,000) and accounted for 33.1% of the Group's revenue, compared to 31.0% in the Prior Year.

Revenue generated from antennas and subsystems business in the Current Year increased slightly by 0.7% to HK$1,434,758,000 (2009: HK$1,424,875,000) and accounted for 27.6% of the Group's revenue, compared to 32.1% in the Prior Year.

Revenue generated from the wireless access (DMS and WLAN) business in the Current Year decreased by 13.3% to HK$404,092,000 (2009: HK$466,050,000) and accounted for 7.8% of the Group's revenue, compared to 10.5% in the Prior Year.

Revenue from services, including consultation, commissioning, network optimization, project management, and after-sales maintenance services in the Current Year, increased significantly by 39.4% to HK$1,632,175,000 (2009: HK$1,171,264,000) and accounted for 31.5% of the Group's revenue, compared to 26.4% in the Prior Year. The increase in revenue from services provided to clients was from installation services, network enhancement services, network upgrade, and after-sales maintenance services on more equipment and larger coverage area.

Gross profit

Despite the continuous pressure on average selling prices of the old and traditional products, the Group's gross profit margin has been kept stable at 37.4% in the Current Year, compared to 37.9% in the Prior Year. During the Current Year, the gross profit increased by 15.3% to HK$1,939,700,000 (2009: HK$1,681,923,000). With the advanced technology, the Group has continuously launched new products and solutions into the markets in order to maintain a stable gross profit margin.

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

Research and development costs

During the Current Year, the research and development ("R&D") costs increased by 26.3% to HK$210,912,000 (2009: HK$167,024,000), representing 4.1% (2009: 3.8%) of the Group's revenue. In view of the increased revenue and future business growth, R&D costs have increased in order to: 1. expand our product portfolio for global markets and continuously develop new 3G products and solutions to capture the huge global, especially the PRC, 3G network build-out business opportunities; 2. develop new products for the next generation's mobile networks; 3. enhance the products quality and streamline the manufacturing process for higher efficiency.

Telecommunications industry relies heavily on R&D on new products and advanced technology. R&D is one of the most important continuous success factors of the Group. To maintain its leadership position in the industry, the Group has to continuously enlarge its advanced R&D team. With its continuous investment in R&D, the Group has achieved significant accomplishment in intellectual property rights, having applied for over 680 patents as at the end of the Current Year.

Selling and distribution costs

During the Current Year, selling and distribution costs increased by 13.4% to HK$265,622,000 (2009: HK$234,153,000), representing 5.1% (2009: 5.3%) of the Group's revenue. The increase in selling and distribution costs was mainly due to the increases in the sales staff salaries, sales commission and travelling expenses as a result of the increased consolidated revenue of the Group.

Administrative expenses

During the Current Year, administrative expenses increased by 15.3% to HK$627,514,000 (2009: HK$544,051,000), representing 12.1% (2009: 12.3%) of the Group's revenue. The increase in administrative expenses was mainly due to increases in administration staff salaries and office expenses as a result of the enlarged support teams for the global operations.

Finance costs

During the Current Year, finance costs increased by 63.4% to HK$20,790,000 (2009: HK$12,722,000), representing 0.4% (2009: 0.3%) of the Group's revenue. The increase in finance costs was mainly due to increases in bank borrowings as a consequence of the increasing business activities.

The management is always prudent to manage the credit risk and improve 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.

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

Tax

During the Current Year, taxation charges decreased by 16.0% to HK$119,540,000 (2009: HK$142,291,000), representing 2.3% (2009: 3.2%) of the Group's revenue. During the Current Year, effective tax rate was 14.0% (2009: 18.9%). The decrease in taxation charge was the combined result of decreases in both PRC corporate income tax and deferred tax credit.

During the Current Year, PRC subsidiaries executed a tax planning so that profits were more evenly allocated to each major PRC subsidiaries. As a result, tax losses in previous years could be utilized to offset current year PRC corporate income tax. During the Current Year, the Group recorded a net PRC corporate income tax charge of HK$116,089,000 (2009: HK$153,951,000).

Accordingly, unrealized profit arising from intra-group transactions decreased as compared to the Prior Year and thus resulted in a reversal of deferred tax credit of HK$29,223,000 in the Current Year. Such reversal was also offset by deferred tax credits of HK$26,272,000 and HK$7,612,000, which were arisen from different PRC tax treatment adopted in accruals and provisions for product warranties respectively. The management has taken and will continue to take reasonable tax planning measures.

Net profit

During the Current Year, profit attributable to shareholders ("Net Profit") increased by 28.3% to HK$724,326,000 (2009: HK$564,500,000), representing 14.0% (2009: 12.7%) of the Group's revenue. The increase in Net Profit was mainly due to the increase of the Group's revenue, scale benefits as a result of the increased sales volume, and a decrease in taxation charges while partially offset by the slight decrease in gross profit margin.

Dividend and bonus share

The Group has put much emphasis on the return and interests of shareholders, in particular the interests of minority shareholders. To balance the shareholders' return and the Group's future long-term development, the Board proposes dividends for 2010 of HK12 cents per ordinary share, in which HK8 cents and HK4 cents will be distributed by final dividend and special dividend respectively. Together with the interim dividend of HK6 cents (2009 interim: HK6 cents) per ordinary share paid on 8 October 2010, the total dividends for the whole year is HK18 cents (2009: HK18 cents) per ordinary share, and the total payout ratio, on the basis of basic EPS, is 32.4% (2009: 33.3%, based on the number of shares issued as at 31 December 2009), in which the payout ratios for final dividend and special dividend are 14.4% (2009: 14.8%, based on the number of shares issued as at 31 December 2009) and 7.2% (2009: 7.4%, based on the number of shares issued as at 31 December 2009) respectively, and for interim dividend is 10.8% (2009: 11.1%, based on the number of shares issued as at 31 December 2009).

During the Current Year, the Group recorded both net profit and net cash (defined as cash and cash equivalents less interest-bearing bank borrowings) at historic level. The Board would like to take this opportunity to share the achievement over the last year with shareholders and declares special dividend for the second time. In future, the Board will, whenever the business allows, increase the dividend payout ratio to reward shareholders for their support to the Group.

In addition to the distribution of dividend, the Board also proposes to distribute 1 bonus share for every 10 existing ordinary shares held by shareholders whose name appear on the Company's share register on 23 May 2011. The relevant resolutions will be proposed at the annual general meeting held on 23 May 2011 and, if duly passed by shareholders, the dividend warrants, together with the share certificates for the bonus shares will be dispatched on 31 May 2011.

PROSPECT

2011 is a crucial year for the Group and is a year in which the global economy is expected to continue to grow steadily. In the developing countries where our major markets locate, the management expects their GDP will have a strong growth in 2011. The global telecommunications network will be further enhanced, and the number of telecommunications users will continue to grow considerably. Meanwhile, the mobile data usage and the number of smart phone users have increased strongly which create a huge demand for wireless enhancement of the mobile networks on an on-going basis.

Since the rollout of 3G networks in the PRC in 2010, the PRC 3G market has evolved into the next stage of wireless enhancement, where the demand has widened from cell sites installations to include wireless extensions, hot spot coverage and indoor wireless systems. Per expectations, many wireless project tenders from the three PRC mobile operators came into fruition in the latter part of 2010 and beyond, of which the Group will benefit from a number of these.

The Group continues to see strong growth in the 2G market in PRC — which remains the dominant with the majority of subscribers on this standard. The initiatives to connect the rural areas to the wireless communications networks continues apace and the Group has successfully positioned itself as a key partner to the operators enabling connectivity to these segments of the market. The Group will benefit from the persistent expansion of capacity and the optimization of the 2G network.

Internationally, the markets have begun to recover, and the management has expectation for the recovery path to continue in 2011 and beyond. The Group has made significant gains in the international markets and has deepened its business with the international operators and core equipment vendors which have driven sales in the latter part of 2010. The Group has also secured several major long term projects and entered into agreements with these international customers which will lay a solid foundation for future international growth.

In addition, the Group is committed to developing innovative network solutions. The management will continue to enlarge the existing three product lines and allocate further resources for product innovation with a view to bringing novel concepts to communication products in the coming year and bringing new hopes to the Group's development. The Group has also successfully launched new products carrying functions across different product lines.

Wireless Enhancement

The management expects that there will be a robust demand for wireless enhancement solution in 2011 driven by the enormous opportunities from 3G network enhancement and the growth in 2G network enhancement. The Group has become one of the few major telecommunication equipment and service providers for various domestic milestones projects, such as Expo 2010 Shanghai China, Asian Games, and high-speed train systems.

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

At present, the number of mobile phone users in China has exceeded 860 million and approximately 5% of which are 3G users. The management expects the 2G and 3G subscriber number continues to grow, which creates a strong demand for the products. Besides, the network coverage in the rural area is lower than in the urban area in China. The Group will continuously benefit under the national policy of developing rural areas.

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

For 3G activities, the Group is engaged in network upgrades and enhancements. These wireless enhancement activities include long-term coverage extension and capacity optimization projects often spanning multiple years. Given the issuance of 3G licenses in a number of countries, the Group has experienced and anticipates strong demand for its 3G solutions.

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

Globally, operators are facing spectrum allocation issues and time to market for new 3G network rollouts. The Group has anticipated the need for operators to re-use their existing spectrum to upgrade to 3G and to also maximize their existing network investments. As such, the Group has launched a series of spectrum refarming solutions that has seen good market acceptance with successful deployments.

Earlier in 2010, a portfolio of environmentally green solutions were released to the market that continues to see positive market response and is expected to continue doing so. Going forward, the Group has developed a full range of products with LTE ("Long-term evolution") technology and closely monitored the business opportunities for the network in the PRC and other countries. The management anticipates that the trial LTE networks will be launched shortly.

Antennas & Subsystems

After a huge build-out of the 3G networks in the PRC in 2010, the BTS antenna demand has diminished in 2010. In fact, with the strong demand of the antennas for wireless enhancement and base-station subsystems, the Group still maintained the same revenue contribution level as in the Prior Year.

The Group is a market leader in the PRC for antennas and subsystems and has grown to become one of the top antenna suppliers in the world to many of the major multinational operators. The Group's investment in the research and development over the product lines and the persistent improvement in quality have not only benefited the Group, but also substantially enhanced the prestige of the Group's products. Besides, the management is pleased to report that it has been recognized by industry analysts as one of the major base station antenna suppliers and TMA vendors in the world.

For future growth, the Group has developed a portfolio of LTE antennas and subsystems that is being deployed successfully in a number of LTE trials around the globe. The management is optimistic that this and other developments in new technologies will provide a solid foundation for future growth.

Wireless Access (DMS and WLAN)

In 2010, one of the major products in digital microwave system ("DMS") was seriously affected by the policy on the telecommunications in the Indian market. Since the second quarter in the Current Year, the DMS sales was affected by the policy. After the cancellation of policy, the customer orders have been normalized. The Group has actively explored business opportunities in other countries in order to decentralize the geographical customers and maximize the returns.

The Group is proud to be the largest supplier in the WLAN products in the PRC. The Group has won a leading position in the recent tendering of the WLAN products. During the Current Year, the revenue from the WLAN products has increased very substantially. In the future, the management is optimistic about WLAN sales. Taking into account the building of over millions of hotspots in the PRC in the next few years, the management expects that WLAN will remain one of the revenue growth drivers for the Group.

Services

The services provided by the Group include network design and optimization, 3G mobile network modification and upgrade, system installation and after-sales maintenance, etc.

The Group has been providing overall solutions and engineering services for years and has developed a strong services team in wireless enhancement sector to cover the whole PRC and a few emerging markets. The Group has also become a major wireless enhancement services provider in the PRC. To cope with the strong growth, the Group has increased the number of service engineers and technical support staff as well as branch offices.

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

Conclusion

After a few years' of network build-out in the PRC, the number of subscribers is increasing continuously. The increase in subscribers has created big challenges for the network traffic and coverage. With more mobile data subscribers, the network has become over-loaded. To face the challenges, wireless enhancement is an efficient and cost saving tool.

Pursuant to the Twelfth Five-year Plan promulgated by Central Government at the National Peoples' Congress, information, communication and technology industry is one of the major beneficial industries. Besides, the high-speed train build-outs create a huge demand for telecommunications systems of which the Group is a market leader and will continue to offer cost-efficient solutions.

In the future, LTE technology will become popular and will be applied in the next generation of mobile network. The Group will pay more attention to the technology development and application of LTE. The management is confident that the Group will benefit from the launch of LTE technology.

Going forward, there will be more 2G and 3G mobile networks in the world. The management foresees that both 2G and 3G mobile networks as well as LTE and WLAN mobile networks will all co-exist in the long term due to different functionalities and demand from subscribers.

The Group has experienced rapid growth and gradually diversified its business and products upon the reorganization of the telecommunications industry in the PRC and the issuance of 3G licenses. The management will strive to control the risks of operations and enlarge the customer base, increase market and product portfolio.

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

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

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances its operations from cashflow generated internally and bank borrowings. As at 31 December 2010, the Group had net current assets of HK$3,061,004,000. Current assets comprised inventories of HK$1,731,457,000, trade receivables of HK$2,895,568,000, notes receivable of HK$49,035,000, prepayments, deposits and other receivables of HK$372,184,000, restricted bank deposits of HK$10,439,000 and cash and cash equivalents of HK$1,472,899,000. Current liabilities comprised trade and bills payables of HK$2,155,090,000, other payables and accruals of HK$947,419,000, derivative financial instrument of HK$2,973,000, interest-bearing bank borrowings of HK$118,563,000, tax payable of HK$189,495,000 and provisions for product warranties of HK$57,038,000.

The average receivable turnover for the Current Year was 176 days compared to 139 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 221 days compared to 179 days for the Prior Year. The average inventory turnover for the Current Year was 187 days compared to 176 days for the Prior Year.

As at 31 December 2010, 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 US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

During the Current Year, in addition to those short-term interest-bearing facilities, the Group had entered into a three-year term loan facility agreement, amounted to US$130,000,000, (the "Facility Agreement") with a group of financial institutions. The facility was granted for the purpose of financing the Group's capital expenditure, research and development initiatives, additional working capital as well as for the purpose of refinancing the outstanding loan drawn under the old three-year term loan facility agreement dated 3 July 2009. Under the Facility Agreement, there is a specific performance obligation that Mr. Fok Tung Ling who is a controlling shareholder and Mr. Zhang Yue Jun who is a substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. As at 31 December 2010, the Group utilized the facility of US$76,180,000.

At 31 December 2010, the Group held an interest rate swap contract designated as hedges in respect of expected interest payments for the above-mentioned USD floating rate loan under the Facility Agreement.

Management Discussion and Analysis

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. As the Group's revenue is substantially denominated in RMB, the Board currently considers that the appreciation of RMB should have a mildly favourable impact on the Group's business.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 8.2% as at 31 December 2010 (31 December 2009: 7.7%).

CHARGE ON ASSETS

As at 31 December 2010, there was no charge on the Group's assets (31 December 2009: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS

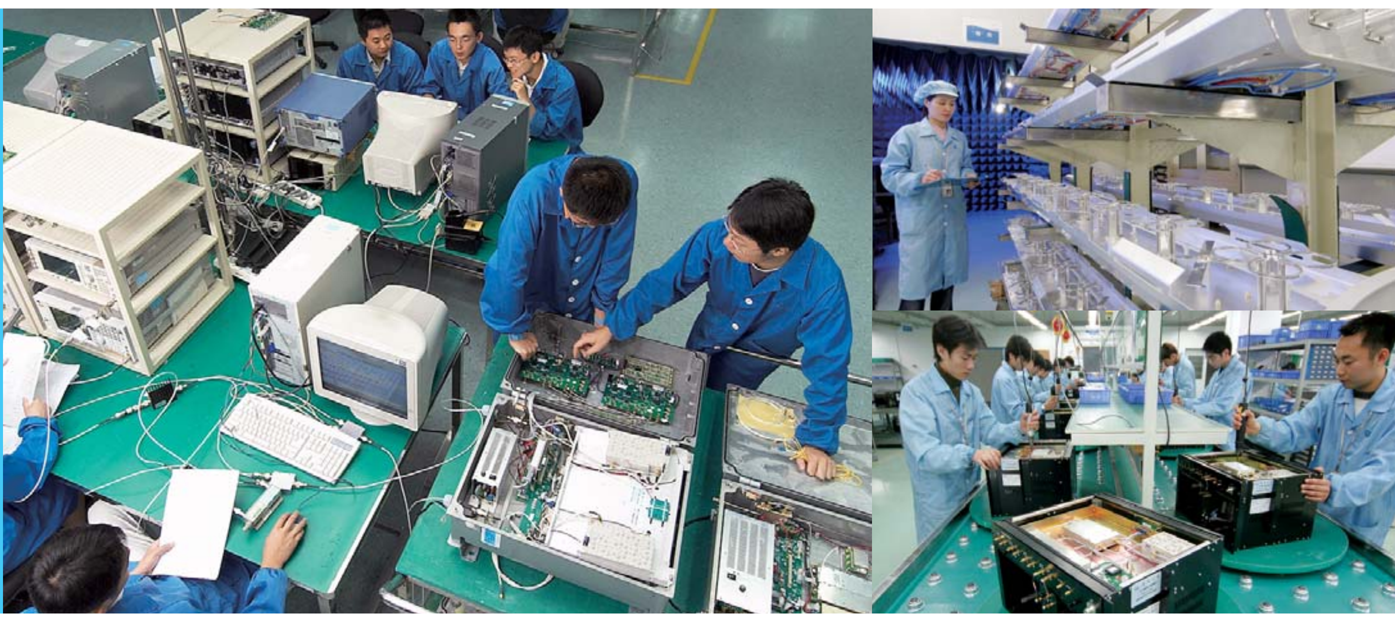
The Group has not conducted any material acquisitions and disposals of subsidiaries and associated companies during the Current Year.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had contingent liabilities of HK$39,225,000 (31 December 2009: HK$31,878,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had approximately 9,400 staff. The total staff costs for the Current Year were HK$860,088,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are granted to eligible staff based on the performance of such employees as well as the Group. Mandatory provident fund, or staff pension schemes are also provided to relevant staff in Hong Kong, PRC or elsewhere in accordance with relevant legal requirements. The Group also provides training to staff to improve their skills and develop their respective expertise.



Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Fok Tung Ling (霍東齡), aged 54, chairman of the Board and president. Mr. Fok is primarily responsible for the Group's overall strategic management and business development. From 1982 to 1987, Mr. Fok worked as a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from the Beijing Institute of Posts and Telecommunications (currently known as the Beijing University of Posts and Telecommunications (北京郵電大學)), majoring in microwave communications. Prior to 1991, Mr. Fok worked as a marketing executive in China Electronics Import-Export Corporation, South China Branch (中國電子進出口總公司華南分公司) which was engaged in the import and export of electronic products. From 1991 to 1997, Mr. Fok was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 29 years of experience in wireless communications. Mr. Fok is the sole director of Prime Choice Investments Limited, which is a controlling shareholder of the Company.

Mr. Fok Tung Ling

Directors and Senior Management

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

Mr. Zhang Yue Jun (張躍軍), aged 52, vice chairman and executive vice president, R&D. Mr. Zhang is responsible for the overall research and development of new technology and products, and the overall quality control of products. He graduated from South China Institute of Technology (currently known as South China University of Technology (華南理工大學)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997 he was the deputy chief engineer of a joint venture company in Shenzhen and was mainly responsible for wireless telecommunications projects. Mr. Zhang has over 28 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 39, executive director and group financial controller. Mr. Tong is also the authorized representative and company secretary of the Company. Mr. Tong is mainly responsible for the overall financial management, accounting, investor relations and company secretarial duties of the Group. Mr. Tong holds a master of business administration degree from University of San Francisco, a master degree in economics from Murray State University, and a bachelor degree in accounting from University of Southern California. Mr. Tong is a Fellow Certified Practising Accountant of CPA Australia, a member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate of The Institute of Chartered Secretaries and Administrators and an associate of the Hong Kong Institute of Company Secretaries. Mr. Tong has over 16 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 51, executive director and senior vice president, PRC marketing and sales. He is responsible for the formulation and implementation of the Group's overall sales and marketing strategies in the PRC and is also involved in the supervision of the implementation of such strategies. He graduated from the Southwest Jiaotong University (西南交通大學) in 1982 and obtained a bachelor's degree in electrical engineering and an EMBA degree from School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in 2006. Mr. Wu has been a lecturer of engineering department for over 10 years and in the last two years of which he taught at Guangzhou University. Mr. Wu also has over 18 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 56, executive director and senior vice president, production operations. Mr. Yan is responsible for the operations of the supply chain and the procurement management of the Group as well as the production management of the Group's production facilities in Guangzhou, the PRC. Mr. Yan graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 35 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 45, executive director and the chief executive officer of WaveLab Holdings Limited, an indirect subsidiary of the Company. Mr. Zheng is primarily responsible for the strategic development of the digital microwave systems products. Mr. Zheng 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 24 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 38, 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 Telecommunications, Inc. and subsequently acquired by Tyco Electronics Ltd. 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 Region 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, the USA. Mr. Yeung has over 15 years of experience in the telecom industry. He joined the Group in 2004.

Directors and Senior Management

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

Independent Non-executive Directors

Mr. Yao Yan (姚彥), aged 73, 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 52, independent non-executive director. He has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants. He is now a member of the Council of ACCA. He has also served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for the year 2000/2001. Mr. Lau is also an independent non-executive director of Binhai Investment Company Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and six other companies listed on the main board of The Stock Exchange namely Carry Wealth Holdings Limited, TCL Communication Technology Holdings Limited, COL Capital Limited, Foxconn International Holdings Limited, Samson Holding Ltd. and Embry Holdings Limited. Mr. Lau had been an independent non-executive director of Greenfield Chemical Holdings Limited and Proview International Holdings Limited until his resignation on 11 June 2010 and 24 August 2010 respectively. Mr. Lau joined the Group in 2003.

Mr. Liu Cai (劉彩), aged 70, independent non-executive director. He is the vice chairman of the China Institute of Communications and chairman of the Consultative Committee for Telecom Law Drafting of the Ministry of Information Industry. From 1988 to 2001, Professor Liu worked with the former Ministry of Post and Telecommunications and the Ministry of Information Industry of the PRC (the "Ministries"). As the director-general of the Policy and Regulation Department of the Ministries, he was directly involved and responsible for policy formulation, reform planning, laws and regulations drafting for the telecommunications industry of the PRC. Before joining the Ministries in 1988, Professor Liu was engaged in research and development works at the China Academy of Post and Telecommunications after graduating from the Beijing Institute of Posts and Telecommunications (currently known as the Beijing University of Posts and Telecommunications). Mr. Liu has also been an independent non-executive director of China United Network Communications Limited since November 2009, with its A shares listed on the Shanghai Stock Exchange. Mr. Liu joined the Group in 2003.

SENIOR MANAGEMENT

Mr. Zhang Yuan Jian (張遠見), aged 53, vice president of the Group. Mr. Zhang is in charge of the technical research and product development of the Group's research and development center. He graduated from the University of Science and Technology of China (中國科學技術大學) in 1980, and graduated from the Nanjing Research Institute of Electronics Technology (南京電子工程研究中心) (now Nanjing Research Institute of Electronics Technology (南京電子技術研究所) in 1984 and obtained a master degree in microwave technology. Mr. Zhang has over 27 years of experience in the technical research on wireless communications, product development and relevant management. He joined the Group in 2004.

Mr. Zhang Jin Yu, Charles (張金玉), aged 47, deputy financial controller of the Group, 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's degree in economic from South-western University of Economics and Finance (西南財經大學) in 1990 and a master of science degree in accounting from the University of New Haven in Connecticut, the United States of America in 1998. He has over 20 years of experience in accounting and financial management and joined the Group in 2004.

Mr. Chen Sui Yang (陳遂陽), aged 47, vice president and general manager of the Group's wireless enhancement products division. Mr. Chen is mainly responsible for the R&D and operational management of the products lines of wireless enhancement products. 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 has also obtained an EMBA degree in China Europe International Business School (CEIBS) (中歐國際工商學院). Mr. Chen has over 25 years of experience in technology research of wireless communications. He joined the Group in 1998.

Mr. Bu Bin Long (卜斌龍), aged 48, vice president and general manager of the Group's antennas and subsystems business unit. Mr. Bu is responsible for the research & development and operations management of mobile communications base stations and antenna products of subsystems. Mr. Bu graduated in 1985 from Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學)) and obtained a master's degree in electronic magnetic field and microwave technology. Mr. Bu has over 25 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Mr. Augustin Ping Chang (張平), aged 48, general manager of the Group's international branch in North America. Mr. Chang is responsible for the business development & R&D activities for high power amplifier in US & Canada. Prior to joining the Group, Mr. Chang was director of engineering at REMEC Inc. He also held various engineering management positions at Spectrian Inc. & Watkins-Johnson Company. Mr. Chang holds a master of science degree in electrical engineering from University of Illinois at Urbana-Champaign and a bachelor of science degree in electrical engineering from Carnegie-Mellon University. Mr. Chang has more than 25 years of experience in RF/microwave amplifier development, from ultra-broadband MMIC amplifier to high power linearized power amplifier for cellular base station. Mr. Chang has co-authored numerous papers in the fields of GaAs FET amplifiers, and holds a patent on high linearity multi-carrier RF amplifier. He joined the Group in 2005.

Mr. Chen Liang (陳亮), aged 36, deputy general manager of the Group's wireless enhancement products division. Mr. Chen is mainly responsible for the product research and development of the wireless enhancement products business unit. He graduated from Shanghai University (上海大學) in 1998, majoring in communications and information engineering. Mr. Chen has 13 years of experience in the technical research, product development and corporate management in the wireless communications area. He joined the Group in 1998.

Directors and Senior Management

Mr. Chen Si Ning (陳思寧), aged 52, director of the procurement center of the Group. Mr. Chen is mainly responsible for the procurement and supplier management of the procurement center of the Group. He graduated from South China University of Technology (華南理工大學) in 1981 and obtained a bachelor's degree in radio technology. Mr. Chen has over 30 years of experience in the development and manufacturing of electronic products and corporate management. He joined the Group in 2000.

Mr. Di Ying Jie (邸英傑), aged 49, 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. He graduated from Xidian University (西安電子科技大學), majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in design and research of microwave RF accessories for many years. Mr. Di also has wide experience in product development of microwave RF passive accessories. He joined the Group in 2004.

Mr. Brian Donohue, aged 46, vice president, business development & general manager of the Group's Europe branch with regional headquarters in Stockholm, Sweden. Mr. Donohue is responsible for business development in the APAC and EMEA regions and responsible for all operations throughout Europe, Russia and CIS countries. Mr. Donohue has over 25 years of experience in the telecommunications industry with more than 15 years of combined international business experience in Latin America, Europe and Asia. Prior to joining the group, Mr. Donohue was senior managing director of CommScope based in Beijing, China where he lived for ten years. He completed his undergraduate studies at Collin County College and attended University of Phoenix where he continued his graduate-level course work in business management. He was a member of MIMA (Midwest Industrial Management Association) where he holds a certificate in professional training and coaching. He joined the Group in 2010.

Mr. Rajiv Girotra, aged 38, managing director of the Group's international branch in India. Mr. Rajiv Girotra holds an executive MBA in international sales from the Indian Institute of Management (IIM-C). Before joining the Group in 2005, he was employed at ZTE and Subex. Mr Girotra has more than total of 15 years of telecommunications equipment sales experience in India and is a telecom policy expert with excellent relationships within the public and private telecom sector-operators in India.

Ms. Ip Choi Lin (葉彩蓮), aged 40, head of human resources, Hong Kong and international markets of the Group. Ms. Ip is responsible for the overall HR strategies and services for Hong Kong and global offices. She holds a bachelor of business administration degree from Newport University, USA. Ms. Ip is a member of Hong Kong Institute of Human Resource Management. Ms. Ip has over 17 years of experience in the HR development and management. She joined the Group in 2010.

Mr. Jiang Hong Ming (江洪明), aged 37, deputy director of the Group's human resource. Mr. Jiang is responsible for the development and operation, remunerations and benefits, employees' relations and performance management of the human resources of the Group. He graduated from the Renmin University of China (中國人民大學), majoring in human resources and labour economics, and has obtained a master degree in labour economics and is recognized as a senior economist. Mr. Jiang has over 14 years of experience in the management of human resources, corporate operation and management. He joined the Group in 2003.

Mr. Lai Wen Qiang (賴文強), aged 33, deputy director of the research and development center of the Group and director of the research department in Guangzhou. Mr. Lai is responsible for the technical research and product development of the research department in Guangzhou. He finished two courses in Peking University (北京大學) in 2000 and 2003 and obtained a bachelor's degree in telecommunications science and technology and master's degree in communications and information system. Mr. Lai has many years of experience in technical research and development in the wireless communications area. He joined the Group in 2005.

Directors and Senior Management

Mr. Li Jin Qing (李金擎), aged 41, director of the network management business center of the Group. Mr. Li is mainly responsible for the product research and development of network products in the network management business center of the Group. He graduated from Jinggangshan University (井岡山大學) in 1994 and graduated from Sun Yat-Sen University (中山大學) and obtained a bachelor's degree in science in 2001. Mr. Li has over 17 years of experience in the information and wireless communications, covering software technology research as well as the product development and management. He joined the Group in 2002.

Ms. Li Yu Wen (李宇雯), aged 40, 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 18 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. Lin Yuan (林源), aged 30, director of the information center of the Group. Mr. Lin is responsible for coordinating management of our IT businesses throughout the world. He graduated from Sun Yat-Sen University (中山大學) in 2003, and obtained a bachelor's degree in communications engineering. He then graduated from New Jersey Institute of Technology in America in 2004, and obtained a master's degree in telecommunications science. He worked with AT&T, Amgen and TFA non-profit organizations, and is experienced in the structural design of information systems, information safety, IT administration and management. He joined the Group in 2009.

Mr. Liu Qing Guo (劉慶國), aged 35, deputy general manager of the wireless access business unit of the Group. Mr. Liu is mainly responsible for the research and development as well as management of microwave transmission, microwave RRU and WLAN products. He graduated from a university specialized in military communications and obtained a bachelor's degree in communications engineering in 1997. He then graduated from Sun Yat-Sen University (中山大學) in 2003, and obtained a master's degree in detection technology and automatics. Mr. Liu has over 14 years of experience in the technical research, product development and management of wireless communications. He joined the Group in 2003.

Mr. Liu Yi Bo (劉義波), aged 42, general manager of the wireless solutions division of the Group. Mr. Liu is responsible for the management of the application of the Group's products and related solutions. He graduated from University of Electronic Science and 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 19 years of experience in engineering and project management. He joined the Group in 1997.

Mr. Ong Sing Jye (王新杰), aged 42, 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 17 years of experience in the telecommunications industry and joined the Group in 2002.

Mr. Pan Shuan Long (潘栓龍), aged 47, deputy director of the research and development center of the Group and the director of PA department (domestic). Mr. Pan is responsible for the research and development and technology management of the Power Amplifiers and related products with respect to active products. Mr. Pan obtained his bachelor's degree in automated controls from Lanzhou Railway University (currently known as Lanzhou Jiaotong University (現稱蘭州交通大學)) in 1985. Mr. Pan has 25 years of experience in technology research and development in the mobile communications sector. Mr. Pan joined the Group in 2002.

Directors and Senior Management

Mr. Wang Hui (汪輝), aged 49, deputy director of the manufacturing center of the Group. Mr. Wang is responsible for the production management of the supply chain system and the introduction of new products. He completed the undergraduate studies in Chongqing University (重慶大學) in 1984. Mr. Wang has 27 years of experience in the technology and production management in mechanical and communications industries. He joined the Group in 2010.

Mr. Johan Patrik Westfalk, aged 39, general manager of the Group's Caribbean & Latin America branch with headquarters in São Paulo, Brazil. Mr. Westfalk is responsible for all operations throughout the Latin American countries as well as the Caribbean Islands. He holds a Master of science degree in engineering physics from Chalmers University of Technology in Gothenburg, Sweden, specializing in electromagnetic fields and microwave antenna design and has also completed finance and accounting education at the Business School of São Paulo, Brazil. Mr. Westfalk has over 15 years of experience in the telecommunication industry and over 11 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Ms. Wong Siu Fan (黃少芬), aged 39, deputy financial controller of the Group, group finance. Ms. Wong is responsible for the group financial reporting, financial management and company secretarial duties of the Group. She holds bachelor of arts degree in accountancy from the Hong Kong Polytechnic University and master of science degree in financial management from the University of London. Ms. Wong is a Hong Kong Certified Public Accountant, an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. She has over 16 years of experience in auditing, accounting and financial management in the international accounting firm and listed companies. She joined the Group in 2004.

Mr. Yan Kuang Wu (嚴匡武), aged 32, deputy director of the corporate cooperation department of the Group. Mr. Yan is responsible for the cooperation business of OEM/ODM of the Group. He graduated from University of Electronic Science and Technology of China in 2001 with a bachelor's degree in electronics engineering, and obtained a master's degree in signal and information processing from University of Electronic Science and Technology of China (電子科技大學) in 2005. Mr. Yan has many years of experience in the technical research on wireless communications industry, product development, marketing and management. He joined the Group in 2005

Mr. Zheng Xiao Ming (鄭小明), aged 41, director of the operating center and director of the manufacturing center of the Group. He is mainly responsible for the orders from both domestic and international customers, production and product delivery. He graduated from China University of Mining and Technology (中國礦業大學), and obtained a bachelor's degree in 1993. Mr. Zheng has over 17 years of experience in formulating operation plans, materials management, production and product delivery. He joined the Group in 2001.

Corporate Governance Report

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

During the Current Year, the Board reviewed daily governance of the Group in accordance with the code provisions (the "Code Provision(s)") of the Code on Corporate Governance Practices ("Corporate Governance Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered that, from 1 January 2010 to the date of this annual report, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has complied with the Code Provisions, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that their divisions of responsibility should be clearly established and set out in writing. Mr. Fok Tung Ling, chairman of the Board is currently holding the office of chief executive officer during the Current Year. Accordingly, the Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of the Board, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities transactions of the Company by its directors (the "Directors"). Specific enquiry has been made to all Directors, and the Directors have confirmed that they have complied with all relevant requirements as set out in the Model Code throughout the Current Year and up to the date of this annual report.

BOARD OF DIRECTORS

As at the date of this annual report, the Board comprises 10 Directors. Details of the composition of the Board, relationship among members of the Board (if any), term of appointment of the Directors, and biographical information of the Directors are set out in the sections "Report of the Directors" and "Directors and Senior Management" of this annual report. The Board held 12 meetings during the Current Year with attendance record as follows:

Attendance at board meeting	**Number of meetings attended/ Total number of meetings held**
Executive Directors:	
Mr. Fok Tung Ling *(Chairman & President)*	12/12
Mr. Zhang Yue Jun	12/12
Mr. Tong Chak Wai, Wilson	12/12
Mr. Wu Jiang Cheng	12/12
Mr. Yan Ji Ci	12/12
Mr. Zheng Guo Bao	9/12
Mr. Yeung Pui Sang, Simon	12/12
Independent Non-executive Directors:	
Mr. Yao Yan	11/12
Mr. Lau Siu Ki, Kevin	12/12
Mr. Liu Cai	12/12

Full Board meetings are held at least 4 times a year. The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organization on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim financial statements for the Board's approval before public reporting; implementation of strategies approved by the Board;

the monitoring of operating budgets; the implementation of internal control procedures; and ensuring compliance with relevant statutory requirements and other rules and regulations.

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

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

REMUNERATION COMMITTEE

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

The 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.

The remuneration committee held 2 meetings during the Current Year with attendance record as follows:

Attendance at remuneration 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

At the meetings held during the Current Year, the compensation packages of all Directors and senior management were discussed and approved.

NOMINATION OF DIRECTORS

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

There was no appointment or removal of director in the Current Year. Accordingly, the Board did not hold any meeting to address matters relating to nomination of directors during the Current Year.

AUDIT COMMITTEE

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

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

The audit committee held 2 meetings during the Current Year with attendance record as follows:

Attendance at audit committee meeting	**Number of meetings attended/ Total number of meetings held**
Mr. Yao Yan	1/2
Mr. Lau Siu Ki, Kevin	2/2
Mr. Liu Cai	2/2

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

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

During the Current Year, the Group's senior management attended over 180 investor meetings, including participation in 3 investor conferences, and 22 non-deal roadshows, 20 plant visits were arranged. This provided the investment community with an opportunity to understand the business of the Group better. As a result of the investor relations activities undertaken, as at the end of the Current Year, 24 securities companies provided research coverage on the Company.

INTERNAL CONTROLS

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

The internal audit department monitors the internal control procedures and systems of the Group and reports its findings and recommendations to management, and the audit committee.

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

The audit committee reviewed the reports submitted by the internal audit department and reported semi-annually to the Board on such reviews.

In respect of the Current year, the Board reviewed the effectiveness of the internal control system within the Group and is satisfied that the internal control systems within the Group are effective.

AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. The audit committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. The audit committee considered and approved the engagement of Ernst & Young as auditors of the Company for the Current Year and the corresponding audit fees estimation. Such recommendation relating to appointment of Ernst & Young is agreed and accepted by the Board. During the Current Year, the fees paid to the auditors for audit services and non-audit services (mainly tax review and interim financial statements review) amounted to HK$2,855,000 and HK$1,454,000, respectively. The auditors confirm to the Board that they acknowledge their responsibilities of expressing an opinion on the annual financial statements for the Current Year.

Report of the Directors

The directors of Comba Telecom Systems Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company 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 Current Year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 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 110.

An interim dividend of HK6 cents per ordinary share was paid on 8 October 2010 (2009: HK6 cents per ordinary share). The directors recommend the payment of a final dividend of HK8 cents per ordinary share (2009: HK8 cents per ordinary share) and a special dividend of HK4 cents per ordinary share (2009: HK4 cents per ordinary share) in respect of the year to shareholders on the register of members on 23 May 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of statement of financial position.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on pages 111 to 112. 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 Current Year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

As a reward to the continual support of the shareholders, the Company has allotted and issued 107,628,126 and 119,281,389 new ordinary shares by way of bonus issues to the existing shareholders on 1 June 2010 and 8 October 2010 respectively.

Details of movements in the Company's share capital and share options during the Current Year are set out in notes 29 and 30 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold on the Stock Exchange or otherwise any of the Company's listed securities during the Current Year.

RESERVES

Details of movements in the reserves of the Company and the Group during the Current Year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$538,145,000 of which HK$105,844,000 and HK$52,922,000 have been proposed as a final dividend and a special dividend for the year, respectively. In addition, the Company's share premium account, in the amount of HK$482,453,000, may be distributed, provided that immediately following the date on which the distribution or dividends proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 89.7% of the total sales for the year and sales to the largest customer included therein accounted for approximately 52.0% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

DIRECTORS

The directors of the Company during the Current Year were as follows:

Executive directors:

Mr. Fok Tung Ling ("Mr. Fok") (Chairman and President)
Mr. Zhang Yue Jun ("Mr. Zhang")
Mr. Tong Chak Wai, Wilson ("Mr. Tong")
Mr. Wu Jiang Cheng ("Mr. Wu")
Mr. Yan Ji Ci ("Mr. Yan")
Mr. Zheng Guo Bao ("Mr. Zheng")
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")

Independent non-executive directors:

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

In accordance with articles 87(1) and 87(2) of the Company's articles of association, Messrs. Zhang, Wu, Yan and Yeung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All the independent non-executive directors are appointed for a term of one year.

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

BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 21 to 28 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company (except Mr. Tong, Mr. Zheng and Mr. Yeung) has entered into a service contract with the Company for an initial term of three years which commenced on 1 July 2003, and will continue thereafter until terminated by either party by giving not less than six months' written notice. As these contracts were entered into on or before 31 January 2004, they are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Mr. Tong has entered into a service contract with the Company for an initial term of three years which commenced on 1 December 2008 and will continue thereafter until terminated by not less than six months' 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 of the Company 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 2010, the interests and short positions of the directors of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

		No. of ordinary shares held, capacity and nature of interest			
Name of directors	**Notes**	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Fok	(a)	15,689,295	473,060,807	488,750,102	36.94
Mr. Zhang	(b)	–	139,389,502	139,389,502	10.54
Mr. Tong		2,706,850	–	2,706,850	0.20
Mr. Wu		6,178,502	–	6,178,502	0.47
Mr. Yan		5,212,196	–	5,212,196	0.39
Mr. Zheng		2,979,251	–	2,979,251	0.23
Mr. Yeung		4,208,622	–	4,208,622	0.32
		36,974,716	612,450,309	649,425,025	49.09

Long positions in share options of the Company:

Name of directors	Notes	No. of options directly beneficially owned
Mr. Tong		2,732,750
Mr. Wu		4,337,850
Mr. Yan		4,129,130
Mr. Zheng		732,050
Mr. Yeung		4,099,480
Mr. Yao	(c)	220,000
Mr. Lau Siu Ki, Kevin	(c)	220,000
Mr. Liu Cai	(c)	220,000
		16,691,260

Notes:

(a) 471,892,456 shares and 1,168,351 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 473,060,807 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 139,389,502 shares owned by Wise Logic.

(c) On 22 July 2010, the Company granted 30,000,000 share options to individuals, in which 200,000 share options were granted to each independent non-executive directors, namely Mr. Yao, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai. These share options were further adjusted as a result of the bonus issue of shares approved on 29 September 2010.

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 2010, 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 of the Company. 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

Save for the Existing Loan Agreements, the Existing ODU Agreements, the Existing Diplexer Agreement, the New Loan Agreement, the WTAP Agreement and the WTAP-Components Agreement in which Mr. Zheng has interest (as disclosed in the section "Connected Transactions" below), no contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party, and in which a director of the Company or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Current Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 30 to the financial statements, at no time during the Current 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 30 to the financial statements.

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

At 31 December 2010, 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	471,892,456	35.67
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	488,750,102	36.94
Wise Logic		Beneficial owner	139,389,502	10.54
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	139,389,502	10.54
Halbis Capital Management (Hong Kong) Limited		Investment manager	80,258,195	6.07

Notes:

(a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 488,750,102 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 139,389,502 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) 471,892,456 shares between Prime Choice and Mdm. Chen; and

(ii) 139,389,502 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2010, 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

In the year under review, 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 18 July, 2007, 25 June 2008 and 1 August 2008, the Lender, Cascade Technology Limited (a wholly-owned indirect subsidiary of the Company) and the Borrower, WaveLab Holdings Limited ("WaveLab Holdings"), entered into three loan agreements (collectively referred to as the "Existing Loan Agreements") pursuant to which the Lender agreed to lend principal amounts of US$2,500,000 (equivalent to approximately HK$19,500,000), US$3,000,000 (equivalent to approximately HK$23,400,000) and US$3,000,000 (equivalent to approximately HK$23,400,000) (collectively referred to as the "Existing Loans"), respectively to the Borrower at the rate of LIBOR at the date of drawing plus 1 per cent per annum. The interest period of the Existing Loans is either 6 or 12 months at the selection of the Borrower. The Lender may, at any time upon giving notice in writing, demand repayment of the Existing Loans in full or in part up to the outstanding amount of the Existing Loans not yet repaid and/or payment of any part of the interest accrued thereon as at the date of the written demand of the Lender. Unless otherwise agreed by the Lender, the Existing Loans are applied by the Borrower as working capital of the Borrower and its subsidiaries.

On 25 August 2010, the Lender and the Borrower entered into a loan agreement with effect from 1 January 2011 (the "New Loan Agreement") pursuant to which the Lender agreed to lend a principal amount of US$8,500,000 (equivalent to approximately HK$66,300,000) (the "New Loan") to the Borrower at the rate of LIBOR at the date of drawing plus 1.8 per cent per annum. The interest period of the Loan is either 3 or 6 or 12 months at the selection of the Borrower. The drawing availability period shall be upto 31 December 2013 upon mutual agreement between the Lender and the Borrower. The Lender may, at any time upon giving notice in writing, demand repayment of the New Loan in full or in part up to the outstanding amount of the New 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.

The purpose of the New Loan is used for refinancing all outstanding indebtedness under the Existing Loan Agreements. Unless otherwise agreed by the Lender, the New Loan is used for the working capital purpose of the Borrower and its subsidiaries. As at 31 December 2010, all outstanding indebtedness under the Existing Loan Agreements amounted to US$6,000,000 (equivalent to approximately HK$46,800,000).

The Borrower is a non wholly-owned indirect subsidiary of the Company. As Mr. Zheng, an executive director and a connected person of the Company, is a shareholder of the Borrower holding 32% of the issued share capital of the Borrower, the Borrower (being a non wholly-owned indirect subsidiary of the Company and an associate of Mr. Zheng) is a connected person of the Company under the Listing Rules.

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

Continuing connected transactions

An agreement dated 21 June 2007 and an extension agreement dated 1 August 2008 were entered into between the Group and WaveLab Telecom Equipment (Guangzhou) Limited ("WaveLab Guangzhou") (collectively referred to as "Existing ODU Agreements") relating to (a) the sale of the digital microwave outdoor units and other products used in connection with microwave transmission (the "ODU") by WaveLab Guangzhou to the Group and (b) WaveLab Guangzhou's grant to the Group of the sole and exclusive right to sell the ODU products of WaveLab Guangzhou in the Mainland China, Hong Kong and Macau from 1 March 2007 extended to 31 December 2010. The price and quantities of the ODU products under the Existing ODU Agreements are to be agreed between WaveLab Guangzhou and the Group in writing from time to time. The Group intended to integrate most, if not all, of the ODU acquired with the products of the Group.

On 1 August 2008, the Group entered into another agreement (the "Existing Diplexer 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 Products") by the Group to WaveLab Holdings and its subsidiaries ending on 31 December 2010. The price and quantities of the Diplexer products under the Existing Diplexer Agreement are to be agreed between WaveLab Holdings and the Group in writing from time to time.

As the Existing ODU Agreements and the Existing Diplexer Agreement relating to the continuing connected transactions provided thereunder would expire on 31 December 2010, and in view of the future prospects and the future demand of communication equipment in the PRC and other countries, the Group will continue to be engaged in the business of manufacture and sales of microwave transmission products. Therefore, on 25 August 2010, the Group entered into an agreement (the "WTAP Agreement") with WaveLab Holdings relating to the purchase of wireless transmission and access products (including but not limited to ODU products and such other products) (the "WTAP") from WaveLab Holdings to the Group for the term from 1 January 2011 to 31 December 2013, subject to the early termination provisions in the WTAP Agreement. On the same day, the Group entered into an agreement (the "WTAP-Components Agreement") with WaveLab Holdings relating to the sale of the components (including but not limited to Diplexer Products and such other components) used in the manufacture of WTAP (the "WTAP-Components") by the Group to WaveLab Holdings for the term from 1 January 2011 to 31 December 2013, subject to the early termination provisions in the WTAP-Components Agreement.

WaveLab Holdings, a 55% indirect subsidiary of the Company, and that Mr. Zheng, an executive director of the Company who is a 32% owner of WaveLab Holdings, both the transactions which the Group continued to carry out pursuant to the Existing ODU Agreements, Existing Diplexer Agreement, WTAP Agreement and WTAP-Components Agreement constitute non-exempt continuing connected transactions falling under Rule 14A.35 of the Listing Rules.

The directors (including the independent non-executive directors) of the Company have reviewed the transactions under the Existing ODU Agreements, Existing Diplexer Agreement (collectively referred to as the "Transactions") and confirm that :

(i) the Transactions were entered into in the ordinary and usual course of business of the Group; conducted on normal commercial terms, or (where there is no sufficient comparable transactions to judge whether they are on normal commercial terms) on terms no less favourable to the Group than terms available to or from independent third parties; and conducted, in accordance with the Existing ODU Agreements and the Existing Diplexer 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 Products Transactions in the financial year ended 31 December 2010 did not exceed HK$668 million and HK$38.7 million respectively, being the cap amounts set for the year ended 31 December 2010 (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 Existing ODU Agreements, and the Existing Diplexer Agreement; and

(iv) each of the aggregate value of the Transactions in respect of the year ended 31 December 2010 did not exceed the Cap Amounts respectively.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Comba Telecom Systems Limited, an indirect subsidiary of the Company, entered into a United States dollars term loan facility agreement dated 5 July 2010, which contain covenants requiring specific performance obligations of the controlling shareholder, namely Mr. Fok, and the substantial shareholder, namely Mr. Zhang, of the Company. Details of the facility agreement are set out in note 27 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman and President
Hong Kong
25 March 2011

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 consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 41 to 110, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**5,191,358**	4,439,991
Cost of sales		**(3,251,658)**	(2,758,068)
Gross profit		**1,939,700**	1,681,923
Other income and gains	5	**44,499**	38,807
Research and development costs		**(210,912)**	(167,024)
Selling and distribution costs		**(265,622)**	(234,153)
Administrative expenses		**(627,514)**	(544,051)
Other expenses		**(2,631)**	(10,171)
Finance costs	7	**(20,790)**	(12,722)
PROFIT BEFORE TAX	6	**856,730**	752,609
Income tax expense	9	**(119,540)**	(142,291)
PROFIT FOR THE YEAR		**737,190**	610,318
Attributable to:			
Owners of the parent		**724,326**	564,500
Non-controlling interests		**12,864**	45,818
		737,190	610,318
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	12		
Basic		**55.47**	44.70 *(restated)*
Diluted		**53.40**	42.34 *(restated)*

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**737,190**	610,318
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		**15,516**	7,864
Income tax effect		**(2,348)**	(159)
		13,168	7,705
Cash flow hedge:			
Effective portion of changes in fair value of hedging instrument arising during the year	26	**(2,973)**	–
Reclassification adjustments for losses included in the consolidated income statement	26	**758**	–
Income tax effect	26	**366**	–
	26	**(1,849)**	–
Exchange differences on translation of foreign operations		**114,502**	12,592
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**125,821**	20,297
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**863,011**	630,615
Attributable to:			
Owners of the parent		**848,185**	584,797
Non-controlling interests		**14,826**	45,818
		863,011	630,615

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**537,488**	436,860
Prepaid land lease payments	14	**14,175**	14,030
Goodwill	15	**28,571**	28,571
Deferred tax assets	16	**131,219**	121,773
Intangible assets	17	**9,142**	8,129
Restricted bank deposits	23	**10,249**	1,064
Total non-current assets		**730,844**	610,427
CURRENT ASSETS			
Inventories	19	**1,731,457**	1,601,992
Trade receivables	20	**2,895,568**	2,112,331
Notes receivable	21	**49,035**	34,801
Prepayments, deposits and other receivables	22	**372,184**	204,208
Restricted bank deposits	23	**10,439**	15,391
Cash and cash equivalents	23	**1,472,899**	1,145,957
Total current assets		**6,531,582**	5,114,680
CURRENT LIABILITIES			
Trade and bills payables	24	**2,155,090**	1,776,021
Other payables and accruals	25	**947,419**	711,904
Derivative financial instrument	26	**2,973**	–
Interest-bearing bank borrowings	27	**118,563**	90,835
Tax payable		**189,495**	159,350
Provisions for product warranties	28	**57,038**	39,533
Total current liabilities		**3,470,578**	2,777,643
NET CURRENT ASSETS		**3,061,004**	2,337,037
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,791,848**	2,947,464

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**474,252**	348,342
Deferred tax liabilities	16	**8,571**	6,007
Total non-current liabilities		**482,823**	354,349
Net assets		**3,309,025**	2,593,115
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**132,305**	106,547
Reserves	31(a)	**2,948,453**	2,301,938
Proposed final and special dividends	11	**158,766**	127,857
		3,239,524	2,536,342
Non-controlling interests		**69,501**	56,773
Total equity		**3,309,025**	2,593,115

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Hedging reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final and special dividends HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009		84,735	374,146	51,030	44,442	29,684	–	74,290	272,620	984,277	59,315	1,974,539	14,468	1,989,007
Profit for the year		–	–	–	–	–	–	–	–	564,500	–	564,500	45,818	610,318
Other comprehensive income for the year:														
Gains on property revaluation, net of tax		–	–	–	–	7,705	–	–	–	–	–	7,705	–	7,705
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	12,592	–	–	12,592	–	12,592
Total comprehensive income for the year		–	–	–	–	7,705	–	–	12,592	564,500	–	584,797	45,818	630,615
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(4,833)	(4,833)
Final 2008 dividend declared		–	–	–	–	–	–	–	–	–	(59,904)	(59,904)	–	(59,904)
Issue of shares	29	3,626	99,709	(21,157)	–	–	–	–	–	–	–	82,178	–	82,178
Issue of bonus shares	29	18,186	(18,186)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share option expenses	6	–	–	13,758	–	–	–	–	–	–	–	13,758	–	13,758
Adjustment arising from lapse of share options		–	–	(476)	–	–	–	–	–	476	–	–	–	–
Share options cancelled at expiry date		–	–	(24,210)	–	–	–	–	–	24,210	–	–	–	–
Equity-settled share expenses	6	–	–	–	1,266	–	–	–	–	–	–	1,266	–	1,266
Under-provision of final 2008 dividend		–	–	–	–	–	–	–	–	(589)	589	–	–	–
Interim 2009 dividend	11	–	–	–	–	–	–	–	–	(57,771)	–	(57,771)	–	(57,771)
Proposed final and special 2009 dividends	11	–	–	–	–	–	–	–	–	(127,857)	127,857	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	–	16,369	–	(16,369)	–	–	–	–
Staff welfare fund		–	–	–	–	–	–	–	–	(585)	–	(585)	–	(585)
Disposal of a subsidiary (2% of interest in WaveLab)		–	–	–	(1,936)	–	–	–	–	–	–	(1,936)	1,320	(616)
Strike-off of a subsidiary		–	–	–	(16)	–	–	(308)	–	324	–	–	–	–
At 31 December 2009		106,547	455,669*	18,945*	43,756*	37,389*	–	90,351*	285,212*	1,370,616*	127,857	2,536,342	56,773	2,593,115

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Hedging reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final and special dividends HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		106,547	455,669	18,945	43,756	37,389	–	90,351	285,212	1,370,616	127,857	2,536,342	56,773	2,593,115
Profit for the year		–	–	–	–	–	–	–	–	724,326	–	724,326	12,864	737,190
Other comprehensive income for the year:														
Gains on property revaluation, net of tax		–	–	–	–	13,168	–	–	–	–	–	13,168	–	13,168
Cash flow hedging, net of tax		–	–	–	–	–	(1,849)	–	–	–	–	(1,849)	–	(1,849)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	112,540	–	–	112,540	1,962	114,502
Total comprehensive income for the year		–	–	–	–	13,168	(1,849)	–	112,540	724,326	–	848,185	14,826	863,011
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(2,813)	(2,813)
Final and special 2009 dividends declared		–	–	–	–	–	–	–	–	–	(129,154)	(129,154)	–	(129,154)
Issue of shares	29	3,067	49,475	(11,801)	–	–	–	–	–	–	–	40,741	–	40,741
Issue of bonus shares	29	22,691	(22,691)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share option expenses	6	–	–	14,301	–	–	–	–	–	–	–	14,301	–	14,301
Share options cancelled at expiry date		–	–	(59)	–	–	–	–	–	59	–	–	–	–
Equity-settled share expenses	6	–	–	–	874	–	–	–	–	–	–	874	715	1,589
Under-provision of final and special 2009 dividends		–	–	–	–	–	–	–	–	(1,297)	1,297	–	–	–
Interim 2010 dividend	11	–	–	–	–	–	–	–	–	(71,569)	–	(71,569)	–	(71,569)
Proposed final and special 2010 dividends	11	–	–	–	–	–	–	–	–	(158,766)	158,766	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	–	175	–	(175)	–	–	–	–
Staff welfare fund		–	–	–	–	–	–	–	–	(196)	–	(196)	–	(196)
At 31 December 2010		132,305	482,453*	21,386*	44,630*	50,557*	(1,849)*	90,526*	397,752*	1,862,998*	158,766	3,239,524	69,501	3,309,025

* These reserve accounts comprise the consolidated reserves of HK$2,948,453,000 (2009: HK$2,301,938,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**856,730**	752,609
Adjustments for:			
Interest income	5	**(5,690)**	(1,529)
Finance costs	7	**20,790**	12,722
Depreciation	6	**77,460**	63,035
Recognition of prepaid land lease payments	6	**358**	346
Amortization of intangible assets	6	**2,236**	2,719
Equity-settled share option expenses	6	**14,301**	13,758
Equity-settled share expenses	6	**1,589**	1,266
Loss on disposal of items of property, plant and equipment	6	**1,964**	650
		969,738	845,576
Increase in inventories		**(64,264)**	(549,534)
Increase in trade receivables		**(697,265)**	(839,470)
(Increase)/decrease in notes receivable		**(12,818)**	666
Increase in prepayments, deposits and other receivables		**(156,285)**	(82,389)
Increase in trade and bills payables		**306,785**	853,313
Increase in other payables and accruals		**209,921**	304,278
Increase in provisions for product warranties		**15,697**	11,002
Cash generated from operations		**571,509**	543,442
PRC profits tax paid		**(92,899)**	(49,656)
Overseas profits taxes paid		**(7,643)**	(8,860)
Net cash flows from operating activities		**470,967**	484,926
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**5,690**	1,529
Purchases of items of property, plant and equipment	13	**(154,986)**	(148,432)
Acquisition of intangible assets	17	**(3,001)**	(2,849)
Proceeds from disposal of items of property, plant and equipment		**919**	590
Increase in restricted bank deposits		**(3,564)**	(11,197)
Net cash flows used in investing activities		**(154,942)**	(160,359)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Net cash flows used in investing activities		**(154,942)**	(160,359)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	**40,741**	82,178
New bank borrowings		**583,381**	893,796
Repayment of bank borrowings		**(447,618)**	(505,863)
Interest paid		**(20,032)**	(11,385)
Dividends paid		**(203,536)**	(117,675)
Net cash flows (used in)/from financing activities		**(47,064)**	341,051
NET INCREASE IN CASH AND CASH EQUIVALENTS		**268,961**	665,618
Cash and cash equivalents at beginning of year		**1,145,957**	468,166
Effect of foreign exchange rate changes, net		**57,981**	12,173
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,472,899**	1,145,957
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**1,472,899**	1,120,957
Non-pledged time deposits with original maturity of less than three months when acquired	23	**–**	25,000
Cash and cash equivalents as stated in the statement of financial position		**1,472,899**	1,145,957
Cash and cash equivalents as stated in the statement of cash flows		**1,472,899**	1,145,957

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**399,058**	389,131
Loan to a subsidiary	18	**13,250**	127,237
Total non-current assets		**412,308**	516,368
CURRENT ASSETS			
Due from subsidiaries	18	**833,200**	581,200
Prepayments, deposits and other receivables	22	**–**	132
Cash and cash equivalents	23	**1,519**	25,430
Total current assets		**834,719**	606,762
CURRENT LIABILITIES			
Other payables and accruals	25	**48,093**	22,200
NET CURRENT ASSETS		**786,626**	584,562
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,198,934**	1,100,930
NON-CURRENT LIABILITIES			
Financial guarantee contracts	32	**23,883**	14,104
Net assets		**1,175,051**	1,086,826
EQUITY			
Issued capital	29	**132,305**	106,547
Reserves	31(b)	**883,980**	852,422
Proposed final and special dividends	11	**158,766**	127,857
Total equity		**1,175,051**	1,086,826

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

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

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation(continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), HKFRS 2 Amendments, amendments to HKFRS 8, HKAS 7 and HKAS 17 included in *Improvements* to HKFRSs 2009 and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 — Group and Treasury Share Transactions.*

(c) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 8 *Operating Segments:* Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. Upon the adoption of the amendment, the Group no longer discloses segment asset information as it is not currently reviewed by the chief operating decision maker.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(c) (continued)

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

The Group has reassessed its leases in the Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in the Mainland China remained as operating leases. As the Group has no land lease in Hong Kong, the Amendments to HK Interpretation 4 *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases* does not have any financial impact on the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyper-inflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendments	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

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

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 Consolidated *and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 investments in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Impairment of non-financial assets other than goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

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

An item of property, plant and equipment and any significant part initially recognized is 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 recognized in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Intangible assets (other than goodwill)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Computer software

The purchased computer software are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 3 to 10 years

Golf club membership

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

Research and development costs

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

Expenditure incurred on projects to develop new products is 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 recognized on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Subsequent measurement

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

Loans and receivables

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

Derecognition of financial assets

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

A financial liability is 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 recognized in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognized in the income statement in other operating expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognized in the income statement in other operating expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges (continued)

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the income statement over the remaining term to maturity. Effective interest rate amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortized fair value is recognized immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognized immediately in the income statement.

Amounts recognized in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in other comprehensive income are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

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

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognized in accordance with the general guidance for provisions above; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be 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 investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

Revenue recognition

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes and other retirement benefits

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing date.

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Estimation uncertainty

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

Impairment allowances for trade and other receivables

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

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.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating 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 2010 was approximately HK$28,571,000 (2009: HK$28,571,000). More details are given in note 15.

Provisions for product warranties

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

Fair values

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

4. OPERATING SEGMENT INFORMATION

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

In addition, the Group's revenue, expenses, profits, assets and liabilities and capital expenditure are principally attributable to a single operating segment, which is located in the People's Republic of China (the "PRC"). Therefore, no analysis in operating segment is presented.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2010 HK$'000	2009 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**5,028,114**	4,307,913
Maintenance services	**163,244**	132,078
	5,191,358	4,439,991
Other income and gains		
Bank interest income	**5,690**	1,529
Exchange gain, net	**4,620**	5,626
Government subsidy	**18,464**	9,076
VAT refunds*	**9,918**	18,408
Others	**5,807**	4,168
	44,499	38,807

* During the years ended 31 December 2010 and 2009, Comba Software Technology (Guangzhou) Limited ("Comba Software"), being designated as a software enterprise was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

6. PROFIT BEFORE TAX

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold and services provided		**3,169,126**	2,624,635
Depreciation	13	**77,460**	63,035
Recognition of prepaid land lease payments	14	**358**	346
Amortization of intangible assets	17	**2,236**	2,719
Minimum lease payments under operating leases in respect of land and buildings		**67,376**	56,322
Auditors' remuneration		**2,855**	2,596
Employee benefit expense (including directors' emoluments, note 8):			
Salaries and wages		**739,631**	583,477
Staff welfare expenses		**56,339**	45,460
Equity-settled share option expenses	30	**14,301**	13,758
Equity-settled share expenses		**1,589**	1,266
Pension scheme contributions#		**48,228**	39,079
		860,088	683,040
Exchange gain, net		**(4,620)**	(5,626)
Write-off of inventories		**10,341**	60,851
Write-down of inventories to net realisable value		**–**	18,960
Provisions for product warranties	28	**45,402**	40,373
Fair value losses, net:			
Cash flow hedges (transferred from equity)	26	**758**	–
Loss on disposal of items of property, plant and equipment		**1,964**	650
Bank charges		**17,689**	24,470
Bank interest income		**(5,690)**	(1,529)

At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

7. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on bank loans wholly repayable within five years	**19,531**	10,277
Interest on added confirmation of documentary credits	**1,259**	2,445
	20,790	12,722

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:

	2010 HK$'000	2009 HK$'000
Fees	**600**	600
Other emoluments:		
Salaries, allowances and benefits in kind	**12,990**	12,135
Performance related bonuses*	**9,192**	7,075
Equity-settled share option expense	**1,285**	3,966
Pension scheme contributions	**255**	242
	23,722	23,418
	24,322	24,018

* 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, the three independent non-executive directors were 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 30 to the financial statements. The fair value of such options which has been recognised in 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.

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

(a) Executive and independent non-executive directors

2010	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	–	2,486	2,049	–	12	4,547
Mr. Zhang Yue Jun	–	2,029	1,992	–	53	4,074
Mr. Tong Chak Wai, Wilson	–	1,885	257	218	12	2,372
Mr. Wu Jiang Cheng	–	1,594	2,186	296	53	4,129
Mr. Yan Ji Ci	–	1,342	1,898	273	53	3,566
Mr. Zheng Guo Bao	100	1,711	280	88	60	2,239
Mr. Yeung Pui Sang, Simon	–	1,943	530	197	12	2,682
	100	12,990	9,192	1,072	255	23,609
Independent non-executive directors:						
Mr. Yao Yan	150	–	–	71	–	221
Mr. Lau Siu Ki, Kevin	150	–	–	71	–	221
Mr. Liu Cai	200	–	–	71	–	271
	500	–	–	213	–	713
	600	12,990	9,192	1,285	255	24,322

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

(a) Executive and independent non-executive directors (continued)

2009	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,386	1,494	–	12	3,892
Mr. Zhang Yue Jun	–	1,946	1,444	–	49	3,439
Mr. Tong Chak Wai, Wilson	–	1,426	132	780	12	2,350
Mr. Wu Jiang Cheng	–	1,540	1,628	1,107	49	4,324
Mr. Yan Ji Ci	–	1,297	1,602	988	49	3,936
Mr. Zheng Guo Bao	100	1,684	279	331	59	2,453
Mr. Yeung Pui Sang, Simon	–	1,856	496	760	12	3,124
	100	12,135	7,075	3,966	242	23,518
Independent non-executive directors:						
Mr. Yao Yan	150	–	–	–	–	150
Mr. Lau Siu Ki, Kevin	150	–	–	–	–	150
Mr. Liu Cai	200	–	–	–	–	200
	500	–	–	–	–	500
	600	12,135	7,075	3,966	242	24,018

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

(b) Five highest paid employees

The five highest paid employees during the year included five (2009: five) directors, details of whose remuneration are set out above.

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the year (2009: 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.

	2010	2009
	HK$'000	HK$'000
Current year provision:		
Mainland China	**116,089**	153,951
Overseas	**8,112**	10,092
Deferred tax (note 16)	**(4,661)**	(21,752)
Total tax charge for the year	**119,540**	142,291

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 rates for domestic-invested and foreign-invested enterprise which results in an adjustment of income tax rate to 25%. Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou") and Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), being the manufacturing foreign invested enterprise located in Guangzhou, the PRC, are eligible to enjoy the transitional arrangement under the New Corporate Income Tax Law. In addition, Comba Guangzhou and Comba Technology were designated as High-New Technology Enterprises by Guangdong Science and Technology Department on 14 December 2009 and 16 December 2008 respectively. Being High-New Technology Enterprises, Comba Guangzhou and Comba Technology were entitled to the preferential tax rate of 15% for the year of 2010.

9. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction 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:

	2010		2009	
	HK$'000	**%**	HK$'000	%
Profit before tax	**856,730**		752,609	
Tax at the applicable tax rate	**214,183**	**25.00**	188,152	25.00
Lower tax rates for specific provinces or enacted by local authority	**(88,371)**	**(10.31)**	(172,163)	(22.88)
Effect on opening deferred tax of (increase)/decrease in rate	**(130)**	**(0.02)**	23,722	3.15
Expenses not deductible for tax	**15,102**	**1.76**	37,485	4.98
Additional deductible research and development expenses	**(13,332)**	**(1.56)**	(7,386)	(0.98)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**1,275**	**0.15**	8,006	1.06
Tax losses utilised	**(32,747)**	**(3.82)**	–	–
Tax losses not recognized	**23,560**	**2.75**	64,475	8.57
Tax charge at the Group's effective rate	**119,540**	**13.95**	142,291	18.90

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$116,142,000 (2009: HK$274,111,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2010.

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

Effective deferred tax rate in 2010 was 15% (2009: 15%).

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of HK$233,906,000 (2009: HK$163,482,000) which has been dealt with in the financial statements of the Company (note 31(b)).

11. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Interim — HK6 cents (2009: HK6 cents) per ordinary share	**71,569**	57,771
Proposed final — HK8 cents (2009: HK8 cents) per ordinary share	**105,844**	85,238
Proposed special — HK4 cents (2009: HK4 cents) per ordinary share	**52,922**	42,619
	230,335	185,628

The special dividend is non-recurring in nature. Both the proposed final and special dividends were declared by a board resolution on 25 March 2011.

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting and if passed, will be paid on 31 May 2011.

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

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,305,778,000 (2009 (restated): 1,262,757,000) in issue during the year, as adjusted to reflect the bonus 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.

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:

	2010 HK$'000	2009 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**724,326**	564,500

	Number of shares 2010	 2009 (restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,305,778,000**	1,262,757,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**50,611,000**	70,457,000
	1,356,389,000	1,333,214,000

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 2010						
At 31 December 2009 and at 1 January 2010:						
Cost or valuation	225,487	312,695	113,362	25,629	–	677,173
Accumulated depreciation	(2,010)	(160,702)	(64,483)	(13,118)	–	(240,313)
Net carrying amount	223,477	151,993	48,879	12,511	–	436,860
At 1 January 2010, net of accumulated depreciation	223,477	151,993	48,879	12,511	–	436,860
Additions	5,952	79,165	33,571	12,150	24,148	154,986
Surplus on revaluation	15,516	–	–	–	–	15,516
Disposals	–	(1,173)	(1,648)	(62)	–	(2,883)
Depreciation provided during the year	(9,801)	(45,752)	(17,418)	(4,489)	–	(77,460)
Exchange realignment	5,352	3,644	1,173	300	–	10,469
At 31 December 2010, net of accumulated depreciation	240,496	187,877	64,557	20,410	24,148	537,488
At 31 December 2010:						
Cost or valuation	242,691	395,171	139,645	33,244	24,148	834,899
Accumulated depreciation	(2,195)	(207,294)	(75,088)	(12,834)	–	(297,411)
Net carrying amount	240,496	187,877	64,557	20,410	24,148	537,488
Analysis of cost or valuation:						
At cost	6,029	395,171	139,645	33,244	24,148	598,237
At valuation	236,662	–	–	–	–	236,662
	242,691	395,171	139,645	33,244	24,148	834,899

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost or valuation	162,990	257,158	91,162	18,930	5,874	536,114
Accumulated depreciation	(1,845)	(126,638)	(51,570)	(11,256)	–	(191,309)
Net carrying amount	161,145	130,520	39,592	7,674	5,874	344,805
At 1 January 2009, net of accumulated depreciation	161,145	130,520	39,592	7,674	5,874	344,805
Additions	8,374	56,282	28,665	7,818	47,293	148,432
Surplus on revaluation	7,864	–	–	–	–	7,864
Disposals	–	(172)	(978)	(90)	–	(1,240)
Depreciation provided during the year	(7,065)	(34,665)	(18,409)	(2,896)	–	(63,035)
Transfer	53,167	–	–	–	(53,167)	–
Exchange realignment	(8)	28	9	5	–	34
At 31 December 2009, net of accumulated depreciation	223,477	151,993	48,879	12,511	–	436,860
At 31 December 2009:						
Cost or valuation	225,487	312,695	113,362	25,629	–	677,173
Accumulated depreciation	(2,010)	(160,702)	(64,483)	(13,118)	–	(240,313)
Net carrying amount	223,477	151,993	48,879	12,511	–	436,860
Analysis of cost or valuation:						
At cost	4,116	312,695	113,362	25,629	–	455,802
At valuation	221,371	–	–	–	–	221,371
	225,487	312,695	113,362	25,629	–	677,173

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings were revalued individually at the end of the reporting period, by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$236,662,000 or RMB201,158,000 based on their existing use. Had these leasehold land and buildings been stated at cost less accumulated depreciation, the amount would have been approximately HK$173,754,000 at the end of the reporting period. At 31 December 2010, the Group was in the process of obtaining the building ownership certificate for a seven-storey factory located in Guangzhou Economic and Technology Development District with a fair value of approximately HK$64,025,000. A revaluation surplus of HK$15,516,000, resulting from the above valuations, has been credited to other comprehensive income.

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

Group	2010 HK$'000	2009 HK$'000
At valuation:		
Long term leases	**14,400**	10,052
Medium term leases	**222,262**	211,319
	236,662	221,371
At cost:		
Medium term leases	**6,029**	4,116
	242,691	225,487

14. PREPAID LAND LEASE PAYMENTS

Group	2010 HK$'000	2009 HK$'000
Carrying amount at 1 January	**14,376**	14,722
Recognized during the year	**(358)**	(346)
Exchange realignment	**515**	–
Carrying amount at 31 December	**14,533**	14,376
Current portion included in prepayments, deposits and other receivables	**(358)**	(346)
Non-current portion	**14,175**	14,030

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

15. GOODWILL

Group	2010 HK$'000	2009 HK$'000
Cost and net carrying amount at 1 January	**28,571**	29,187
Cost at 1 January, net of accumulated impairment	**28,571**	29,187
Disposal of a non-controlling interest of a subsidiary	**–**	(616)
Cost and net carrying amount at 31 December	**28,571**	28,571

Impairment testing of goodwill

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

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least five-year period approved by management. The discount rate applied to the cash flow projections is approximately 21%.

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

16. DEFERRED TAX

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

Deferred tax assets

Group	Unrealized profit HK$'000	Accruals HK$'000	Provisions for product warranties HK$'000	Cash flow hedge HK$'000	Total HK$'000
At 1 January 2009	100,001	–	–	–	100,001
Deferred tax credited to the income statement during the year (note 9)	21,752	–	–	–	21,752
Exchange realignment	20	–	–	–	20
At 31 December 2009	121,773	–	–	–	121,773
Deferred tax (charged)/credited to the income statement during the year (note 9)	(29,223)	26,272	7,612	–	4,661
Deferred tax credited to equity during the year	–	–	–	366	366
Exchange realignment	3,573	656	190	–	4,419
At 31 December 2010	96,123	26,928	7,802	366	131,219

16. DEFERRED TAX (continued)

Deferred tax liabilities

Group	Revaluation of properties HK$'000
At 1 January 2009	6,233
Deferred tax credited to equity during the year	159
Exchange realignment	(385)
At 31 December 2009	6,007
Deferred tax credited to equity during the year	2,348
Exchange realignment	216
At 31 December 2010	8,571

17. INTANGIBLE ASSETS

Group	Computer software HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2010			
Cost at 1 January 2010, net of accumulated amortization	**7,015**	**1,114**	**8,129**
Additions	**3,001**	**–**	**3,001**
Amortization provided during the year	**(2,236)**	**–**	**(2,236)**
Exchange realignment	**248**	**–**	**248**
At 31 December 2010	**8,028**	**1,114**	**9,142**
At 31 December 2010:			
Cost	**32,251**	**1,114**	**33,365**
Accumulated amortization	**(24,223)**	**–**	**(24,223)**
Net carrying amount	**8,028**	**1,114**	**9,142**

17. INTANGIBLE ASSETS (continued)

Group	Computer software HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2009			
Cost at 1 January 2009, net of accumulated amortization	7,999	–	7,999
Additions	1,735	1,114	2,849
Amortization provided during the year	(2,719)	–	(2,719)
At 31 December 2009	7,015	1,114	8,129
At 31 December 2009 and at 1 January 2010:			
Cost	28,251	1,114	29,365
Accumulated amortization	(21,236)	–	(21,236)
Net carrying amount	7,015	1,114	8,129

18. INVESTMENTS IN SUBSIDIARIES

Company	**2010 HK$'000**	2009 HK$'000
Unlisted shares, at cost	**375,175**	375,027
Financial guarantees granted to subsidiaries (note 32)	**23,883**	14,104
	399,058	389,131

The amounts due from subsidiaries included in the Company's current assets of HK$833,200,000 (2009: HK$581,200,000) are unsecured, interest-free and are repayable on demand or within one year. The loan to the subsidiary of HK$13,250,000 (2009: HK$127,237,000) 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.

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands	US$100	100	–	Investment holding
Praises Holdings Limited	British Virgin Islands	US$100	–	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	–	100	Investment holding and trading
Comba Telecom Systems (Guangzhou) Limited 京信通信系統（廣州）有限公司*	PRC/ Mainland China	HK$45,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術（廣州）有限公司*	PRC/ Mainland China	HK$65,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Telecom Systems (China) Limited 京信通信系統（中國）有限公司*	PRC/ Mainland China	US$41,865,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
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

18. INVESTMENTS IN SUBSIDIARIES (continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhou Telink Telecom Equipment Ltd. 廣州泰聯電訊設備有限公司*	PRC/ Mainland China	HK$1,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Guangzhou Tai Pu Wireless Telecommunications Equipment Limited 廣州泰普無綫通信設備有限公司*	PRC/ Mainland China	RMB1,000,000	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services
Telink Telecom (China) Limited 泰聯電訊（中國）有限公司*	PRC/ Mainland China	HK$50,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Cascade Technology Limited	British Virgin Islands	US$1	–	100	Investment holding
WaveLab Holdings Limited	Cayman Islands	US$1,000	–	55	Investment holding
WaveLab, Inc.	State of Virginia/ United States of America	No par value	–	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated	State of Virginia/ United States of America	No par value	–	55	Sale of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US$1	–	55	Investment holding

18. INVESTMENTS IN SUBSIDIARIES (continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司*	PRC/ Mainland China	US$3,400,000	–	55	Manufacture and sale of digital microwave system equipment
WaveLab Software Technology (Guangzhou) Limited 波達軟件科技（廣州）有限公司*	PRC/ Mainland China	US$1,000,000	–	55	Provision of software technology services
WaveLab Limited 波達有限公司	Hong Kong	HK$1	–	55	Investment holding
Comba Telecom Systems International Limited	British Virgin Islands	US$1	–	100	Investment holding
Comba Telecom Limited	Hong Kong	HK$2	–	100	Trading of wireless telecommunications network enhancement system equipment
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG$2	–	100	Provision of marketing services
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. INVESTMENTS IN SUBSIDIARIES (continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Inc.	State of Delaware/ United States of America	US$1	–	100	Research and development and trading of wireless telecommunications network enhancement system equipment
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	BRL2,195,289	–	100	Production and assembling and trading of wireless telecommunications network enhancement system equipment
Comba Telecom India Private Limited	India	INR500,000	–	100	Trading of wireless telecommunications network enhancement system equipment
Comba Telecom Macau Limited 京信通信澳門有限公司#	Macau	MOP100,000	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services
DigiLab Holdings Company Limited▼	British Virgin Islands	US$1,000	–	63	Investment holding

Notes:

* These are wholly-foreign-owned enterprises under PRC law.
▼ The dissolution of this subsidiary was completed on 8 November 2010.
\# This subsidiary was set up during the year.

19. INVENTORIES

Group	2010 HK$'000	2009 HK$'000
Raw materials	**155,964**	158,499
Project materials	**118,884**	111,427
Work in progress	**148,052**	129,954
Finished goods	**305,413**	263,923
Inventories on site	**1,003,144**	938,189
	1,731,457	1,601,992

20. TRADE RECEIVABLES

Group	2010 HK$'000	2009 HK$'000
Trade receivables	**2,912,261**	2,128,483
Provision for impairment	**(16,693)**	(16,152)
	2,895,568	2,112,331

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

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

Group	2010 HK$'000	2009 HK$'000
Within 3 months	**1,696,941**	1,213,439
4 to 6 months	**358,029**	287,330
7 to 12 months	**409,904**	326,793
More than 1 year	**447,387**	300,921
	2,912,261	2,128,483
Provision for impairment	**(16,693)**	(16,152)
	2,895,568	2,112,331

20. TRADE RECEIVABLES (continued)

The movement in the provision for impairment of trade receivables is as follows:

Group	2010 HK$'000	2009 HK$'000
At 1 January	**16,152**	16,152
Exchange realignment	**541**	–
	16,693	16,152

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

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

Group	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	**2,822,207**	2,053,630
Less than 1 year past due	**73,361**	58,701
	2,895,568	2,112,331

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 2010 and 31 December 2009, none of the notes receivables were endorsed or discounted.

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**133,667**	88,171	**–**	132
Deposits	**73,768**	22,267	**–**	–
Other receivables	**164,749**	93,770	**–**	–
	372,184	204,208	**–**	132

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

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,472,899**	1,120,957	**1,519**	430
Time deposits	**20,688**	41,455	**–**	25,000
	1,493,587	1,162,412	**1,519**	25,430
Less:				
Restricted bank deposits for performance bonds	**(20,688)**	(16,455)	**–**	–
Cash and cash equivalents	**1,472,899**	1,145,957	**1,519**	25,430

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,405,296,000 (2009: HK$1,027,595,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balance and time deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

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

Group	2010 HK$'000	2009 HK$'000
Within 3 months	**1,243,947**	1,040,486
4 to 6 months	**445,204**	490,781
7 to 12 months	**374,671**	212,291
More than 1 year	**91,268**	32,463
	2,155,090	1,776,021

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Accruals	**241,597**	207,258	**2,399**	2,182
Deposits received	**218,453**	165,916	**–**	–
Other payables	**487,369**	338,730	**45,694**	20,018
	947,419	711,904	**48,093**	22,200

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

26. DERIVATIVE FINANCIAL INSTRUMENT

Group	2010 Liabilities HK$'000	2009 Liabilities HK$'000
Interest rate swap	**2,973**	–

Interest rate swap-cash flow hedges

At 31 December 2010, the Group held interest rate swap contract designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

Group	2010 HK$'000	2009 HK$'000
Total fair value loss	**2,973**	–
Reclassification from other comprehensive income and recognized in the income statement	**(758)**	–
Deferred tax on fair value loss	**(366)**	–
Net loss on cash flow hedge	**1,849**	–

27. INTEREST-BEARING BANK BORROWINGS

Group	2010 HK$'000	2009 HK$'000
Analysed into:		
Within 1 year	**118,563**	90,835
In the second year	**237,126**	174,171
In the third year	**237,126**	174,171
	592,815	439,177

All the bank loans at 31 December 2010 and 31 December 2009 were unsecured. Loans denominated in Hong Kong dollars amounted to nil (2009: HK$3,750,000) and loans denominated in United States dollars amounted to HK$592,815,000 (2009: HK$435,427,000).

On 5 July 2010, Comba Telecom Systems Limited, an indirect subsidiary of the Company (the "Borrower"), entered into a facility agreement with a group of financial institutions namely The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Australia and New Zealand Banking Group Limited, Hang Seng Bank Limited, Svenska Handelsbanken AB (publ), Hong Kong Branch, Bank of Ayudhya Public Company Limited, Hong Kong Branch, DBS Bank (Hong Kong) Limited, Bangkok Bank Public Company Limited, Hong Kong Branch, Cathay United Bank Company, Limited, Hong Kong Branch, Bank SinoPac, Hong Kong Branch, Chang Hwa Commercial Bank, Ltd., Hong Kong Branch, Industrial Bank of Taiwan, Hong Kong Branch, Taiwan Business Bank Hong Kong Branch and Hua Nan Commercial Bank, Ltd., Hong Kong Branch as lenders ("Lenders") and HSBC as the mandated lead arranger and agent ("Agent") (each of the Lenders and the Agent being a third party independent of the Company and its connected persons), whereby the Lenders agreed, inter alia, to grant the Borrower a United States dollar term loan facility of US$130,000,000 (the "Facility").

The Facility was granted for the purpose of financing the Group's capital expenditure and additional working capital, and refinancing the outstanding loan to reduce interest expense.

Under the Facility, there is a specific performance obligation that Mr. Fok Tung Ling, who is a controlling shareholder of the Company, and Mr. Zhang Yue Jun, who is a substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the shares (of each class) of and equity interests in the Company free from any security (as defined by the Facility). As at the date of this report , such obligation has been complied with.

At the end of the reporting period, the Group has utilized the Facility of US$76,180,000 (equivalent to HK$592,815,000).

During the year, all bank loans bear interest at rates ranging from 1.15% to 3.61% (2009: from 1.10% to 4.56%) per annum.

28. PROVISIONS FOR PRODUCT WARRANTIES

Group	2010 HK$'000	2009 HK$'000
At 1 January	**39,533**	28,531
Additional provisions	**45,402**	40,373
Amounts utilised during the year	**(29,705)**	(29,382)
Exchange realignment	**1,808**	11
At 31 December	**57,038**	39,533

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.

29. SHARE CAPITAL

Shares	2010 HK$'000	2009 HK$'000
Authorized:		
5,000,000,000 (2009: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
1,323,051,235 (2009: 1,065,475,095) ordinary shares of HK$0.10 each	**132,305**	106,547

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

(a) Pursuant to the annual general meeting held on 24 May 2010, bonus issue of shares on the basis of one ordinary share for every ten ordinary shares held was approved. 107,628,126 bonus shares were issued under the bonus issue and the amount of HK$10,763,000 was capitalised from the Company's share premium account. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

(b) Pursuant to the extraordinary general meeting held on 29 September 2010, bonus issue of shares on the basis of one ordinary share for every ten ordinary shares held was approved. 119,281,389 bonus shares were issued under the bonus issue and the amount HK$11,928,000 was capitalised from the Company's share premium account. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

(c) As a result of the bonus issues of shares mentioned above, in accordance with the terms of the share option scheme and the supplementary guidance dated 5 September 2005 issued by the Stock Exchange regarding adjustment of share options under rule 17.03(13) of the Listing Rules, the exercise price of and the number of shares falling to be allotted and issued upon full exercise of the outstanding share options of the share option scheme were adjusted (note 30).

29. SHARE CAPITAL (continued)

(d) The subscription rights attaching to 30,666,625 share options were exercised at the adjusted subscription prices of HK$0.477 to HK$2.380 per share (note 30), resulting in issue of 30,666,625 shares of HK$0.10 each for a total cash consideration, before expenses of HK$40,741,000.

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 2009	847,351,500	84,735	374,146	458,881
Share options exercised	36,262,035	3,626	99,709	103,335
Bonus issues of shares	181,861,560	18,186	(18,186)	–
At 31 December 2009 and 1 January 2010	1,065,475,095	106,547	455,669	562,216
Share options exercised	30,666,625	3,067	49,475	52,542
Bonus issues of share	226,909,515	22,691	(22,691)	–
At 31 December 2010	1,323,051,235	132,305	482,453	614,758

Share Options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. 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.

30. 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 and 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.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of 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:

	2010		2009	
	Weighted average exercise price of share options* HK$ per share	**Number of share options '000**	Weighted average exercise price of share options** HK$ per share	Number of share options '000
At 1 January	**1.04**	**72,499**	1.88	124,112
Granted during the year	**7.23**	**33,000**	—	—
Forfeited during the year	**0.97**	**(346)**	1.69	(1,140)
Exercised during the year	**1.20**	**(33,826)**	2.05	(40,180)
Expired during the year	**1.96**	**(115)**	3.24	(22,876)
At 31 December	**3.83**	**71,212**	1.26	59,916

* The weighted average exercise price of share options per share and number of share options were adjusted as a result of the two bonus issues of shares approved on 24 May 2010 and 29 September 2010.

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

The weighted average share price at the date of exercise for share options exercised during the year was HK$8.48 (2009: HK$5.39).

30. SHARE OPTION SCHEME (continued)

Name or category of participant	At 1 January 2010	Granted during the year	Adjusted during the year#	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
	Number of share options									
Executive directors										
Mr. Tong Chak Wai, Wilson	**2,420,000**	–	435,700	(855,000)	–	–	**2,000,700**	21 Jul 08	21 Jul 09– 20 Jul 11	1.475
	1,210,000	–	148,550	(626,500)	–	–	**732,050**	4 Nov 08	4 Nov 09– 3 Nov 11	0.477
	3,630,000	–	584,250	(1,481,500)	–	–	**2,732,750**			
Mr. Wu Jiang Cheng	**1,573,000**	–	330,330	–	–	–	**1,903,330**	21 Jul 08	21 Jul 09– 20 Jul 11	1.475
	2,662,000	–	422,520	(650,000)	–	–	**2,434,520**	4 Nov 08	4 Nov 09– 3 Nov 11	0.477
	4,235,000	–	752,850	(650,000)	–	–	**4,337,850**			
Mr. Yan Ji Ci	**1,683,000**	–	353,430	(835,500)	–	–	**1,200,930**	21 Jul 08	21 Jul 09– 20 Jul 11	1.475
	2,420,000	–	508,200	–	–	–	**2,928,200**	4 Nov 08	4 Nov 09– 3 Nov 11	0.477
	4,103,000	–	861,630	(835,500)	–	–	**4,129,130**			
Mr. Zheng Guo Bao	**1,210,000**	–	127,050	(605,000)	–	–	**732,050**	21 Jul 08	21 Jul 09– 20 Jul 11	1.475
Mr. Yeung Pui Sang, Simon	**2,420,000**	–	438,200	(2,858,200)	–	–	**–**	22 Dec 05	22 Dec 06– 21 Dec 10	1.793
	1,815,000	–	381,150	–	–	–	**2,196,150**	21 Jul 08	21 Jul 09– 20 Jul 11	1.475
	1,573,000	–	330,330	–	–	–	**1,903,330**	4 Nov 08	4 Nov 09– 3 Nov 11	0.477
	5,808,000	–	1,149,680	(2,858,200)	–	–	**4,099,480**			
Independent non-executive directors										
Mr. Yao Yan	**–**	200,000	20,000	–	–	–	**220,000**	22 Jul 10	22 Jul 11– 21 Jul 13	7.227
Mr. Lau Siu Ki, Kevin	**–**	200,000	20,000	–	–	–	**220,000**	22 Jul 10	22 Jul 11– 21 Jul 13	7.227
Mr. Liu Cai	**–**	200,000	20,000	–	–	–	**220,000**	22 Jul 10	22 Jul 11– 21 Jul 13	7.227

30. SHARE OPTION SCHEME (continued)

Name or category of participant	At 1 January 2010	Granted during the year	Adjusted during the year#	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
	Number of share options									
Other employees										
In aggregate	**5,280,235**	–	336,468	(5,541,149)	(5,554)	(70,000)	**–**	22 Dec 05	22 Dec 06–21 Dec 10	1.793
	621,170	–	–	(531,150)	(90,020)	–	**–**	8 Mar 07	8 Mar 08–7 Mar 10	2.380
	14,072,790	–	2,303,067	(8,384,820)	–	(48,400)	**7,942,637**	21 Jul 08	21 Jul 09–20 Jul 11	1.475
	20,956,300	–	3,230,983	(9,779,306)	–	(170,185)	**14,237,792**	4 Nov 08	4 Nov 09–3 Nov 11	0.477
	–	29,400,000	2,940,000	–	–	–	**32,340,000**	22 Jul 10	22 Jul 11–21 Jul 13	7.227
	40,930,495	29,400,000	8,810,518	(24,236,425)	(95,574)	(288,585)	**54,520,429**			
	59,916,495	30,000,000	12,345,978	(30,666,625)	(95,574)	(288,585)	**71,211,689**			

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

** The exercise price of the share options were adjusted as a result of the two bonus issues of shares approved on 24 May 2010 and 29 September 2010.

*** The weighted average closing price of the Company's share immediately before the exercise dates of the share options was HK$8.372 per share. The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK$7.191 per share.

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

On 24 May 2010, the total number of ordinary shares falling to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 48,758,505 options granted under the Scheme was adjusted from 48,758,505 ordinary shares of HK$0.1 each to 53,634,354 ordinary shares of HK$0.1 each, and the adjusted exercise prices of all outstanding options were HK$0.525 (2009: HK$0.578) to HK$1.972 (2009: HK$2.169) per ordinary share, both effective from 24 May 2010.

On 29 September 2010, the total number of ordinary shares falling to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 74,703,010 options granted under the Scheme was adjusted from 74,703,010 ordinary shares of HK$0.1 each to 82,173,139 ordinary shares of HK$0.1 each, and the adjusted exercise prices of all outstanding options were HK$0.477 (before 29 September 2010: HK$0.525) to HK$7.227 (before 9 September 2010: HK$7.950) per ordinary share, both effective from 29 September 2010.

30. SHARE OPTION SCHEME (continued)

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

31 December 2010 Number of share options	Exercise price of share options* HK$ per share	Exercise period
15,975,797	**1.475**	**21 July 2009 to 20 July 2011**
22,235,892	**0.477**	**4 November 2009 to 3 November 2011**
33,000,000	**7.227**	**22 July 2011 to 21 July 2013**
71,211,689		

* The exercise price of the share options were adjusted as a result of the two bonus issues of shares approved on 24 May 2010 and 29 September 2010.

31 December 2009 Number of share options	Exercise price of share options** HK$ per share	Exercise period
7,700,235	2.169	22 December 2006 to 21 December 2010
621,170	2.380	8 March 2008 to 7 March 2010
22,773,790	1.785	21 July 2009 to 20 July 2011
28,821,300	0.578	4 November 2009 to 3 November 2011
59,916,495		

** The exercise price of the share options were adjusted as a result of the two bonus issues of shares approved on 2 June 2009 and 9 October 2009.

The fair value of the share options granted during the year was HK$31,653,000 (HK$1.06 each).

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:

Dividend yield (%)	Interim: 1.71, Final: 3.10
Expected volatility (%)	30
Risk-free interest rate (%)	0.67
Expected life of options (years)	3

30. SHARE OPTION SCHEME (continued)

The expected life of the options is based on the historical data over the past three 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 expense recognized in the consolidated income statement for employee services received during the year is approximately HK$14,301,000 (2009: HK$13,758,000).

Despite of options adjustments arising from the bonus issues, the 30,666,625 share options exercised during the current year resulted in the issue of 30,666,625 ordinary shares of the Company and new share capital of HK$3,067,000 and share premium of HK$49,475,000.

At the end of the reporting period, the Company had 71,211,689 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 71,211,689 additional ordinary shares of the Company and additional share capital of HK$7,121,000 and share premium of HK$265,542,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 62,682,248 share options outstanding under the Scheme, which represented approximately 4.7% of the Company's shares in issue as at that date.

31. 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 45 and 46 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.

31. RESERVES (continued)

(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 2009		374,146	373,108	51,030	762	1,987	801,033
Total comprehensive income for the year	10	–	–	–	–	163,482	163,482
Issue of shares	29	99,709	–	(21,157)	–	–	78,552
Issue of bonus shares	29	(18,186)	–	–	–	–	(18,186)
Equity-settled share option expenses	6	–	–	13,758	–	–	13,758
Adjustment arising from lapse of share options		–	–	(476)	–	476	–
Share options cancelled at expiry date		–	–	(24,210)	–	24,210	–
Under-provision of final 2008 dividend		–	–	–	–	(589)	(589)
Interim 2009 dividend	11	–	–	–	–	(57,771)	(57,771)
Proposed final and special 2009 dividends	11	–	–	–	–	(127,857)	(127,857)
At 31 December 2009		**455,669**	**373,108**	**18,945**	**762**	**3,938**	**852,422**
Total comprehensive income for the year	10	**–**	**–**	**–**	**–**	**233,906**	**233,906**
Issue of shares	29	**49,475**	**–**	**(11,801)**	**–**	**–**	**37,674**
Issue of bonus shares	29	**(22,691)**	**–**	**–**	**–**	**–**	**(22,691)**
Equity-settled share option expenses	6	**–**	**–**	**14,301**	**–**	**–**	**14,301**
Share options cancelled at expiry date		**–**	**–**	**(59)**	**–**	**59**	**–**
Under-provision of final and special 2009 dividends		**–**	**–**	**–**	**–**	**(1,297)**	**(1,297)**
Interim 2010 dividend	11	**–**	**–**	**–**	**–**	**(71,569)**	**(71,569)**
Proposed final and special 2010 dividends	11	**–**	**–**	**–**	**–**	**(158,766)**	**(158,766)**
At 31 December 2010		**482,453**	**373,108**	**21,386**	**762**	**6,271**	**883,980**

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

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in respect of performance bonds	**39,225**	31,878	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**1,315,555**	950,202
	39,225	31,878	**1,315,555**	950,202

As at 31 December 2010, 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$592,815,000 (2009: HK$439,177,000). The carrying amount of the financial guarantee contracts recognized in the Company's statement of financial position in accordance with the HKAS 39 and HKFRS 4 was HK$23,883,000 (2009: HK$14,104,000). The financial guarantee contracts were eliminated on consolidation.

33. 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 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**38,293**	29,315	**–**	–
In the second to fifth years, inclusive	**50,941**	33,181	**–**	–
After five years	**6,501**	15,941	**–**	–
	95,735	78,437	**–**	–

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following capital commitments for the procurement of production and office facilities at the end of the reporting period:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted, but not provided for:				
Buildings	**51,107**	11,710	**–**	–
Plant and machinery	**5,277**	2,150	**–**	–
Furniture and fixture	**428**	735	**–**	–
Intangible assets	**226**	–	**–**	–
	57,038	14,595	**–**	–

35. RELATED PARTY TRANSACTIONS

(a) The group had no significant transactions with related party during the year and had no significant outstanding balances with related parties at the end of the reporting period:

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

	2010	2009
	HK$'000	HK$'000
Short term employee benefits	**22,782**	19,810
Post-employment benefits	**255**	242
Equity-settled share option expense	**1,285**	3,966
Total compensation paid to key management personnel	**24,322**	24,018

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

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group Financial assets	2010 Loans and receivables HK$'000	2009 Loans and receivables HK$'000
Trade receivables	**2,895,568**	2,112,331
Notes receivable	**49,035**	34,801
Financial assets included in prepayments, deposits and other receivables (note 22)	**238,517**	116,037
Restricted bank deposits	**20,688**	16,455
Cash and cash equivalents	**1,472,899**	1,145,957
	4,676,707	3,425,581

Group Financial liabilities	2010 Financial liabilities at amortized cost HK$'000	2009 Financial liabilities at amortized cost HK$'000
Trade and bills payables	**2,155,090**	1,776,021
Financial liabilities included in other payables and accruals (note 25)	**487,369**	338,730
Derivative financial instrument	**2,973**	–
Interest-bearing bank borrowings	**592,815**	439,177
	3,238,247	2,553,928

Company Financial assets	2010 Loans and receivables HK$'000	2009 Loans and receivables HK$'000
Loan to a subsidiary	**13,250**	127,237
Due from subsidiaries	**833,200**	581,200
Cash and cash equivalents	**1,519**	25,430
	847,969	733,867

Company Financial liabilities	2010 Financial liabilities at amortized cost HK$'000	2009 Financial liabilities at amortized cost HK$'000
Financial liabilities included in other payables and accruals (note 25)	**45,694**	20,018
Financial guarantee contracts	**23,883**	14,104
	69,577	34,122

37. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, restricted bank deposits, trade receivables, notes receivable, trade and notes payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the Group's interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The Group enters into interest rate swap transaction with the international bank, HSBC. The derivative financial instrument, interest rate swap, is measured using valuation techniques similar to swap model, using present value calculations. The model incorporates various market observable inputs including the forward rates and interest rate curves. The carrying amount of the interest rate swap is the same as its fair value.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2010, the financial instrument measured at fair value held by the Group only included the derivative financial instrument which belonged to level 2.

The carrying amounts of the Group's and Company's financial assets and financial liabilities approximate to their fair values.

38. 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.

Interest rate risk

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2010			
United States dollars	**50**	**(2,138)**	**–**
United States dollars	**(50)**	**2,138**	**–**
2009			
United States dollar	50	(1,044)	–
United States dollar	(50)	1,044	–

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. During the year, approximately 4.7% (2009: 3.4%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sales, whilst almost 89.7% (2009: 92.3%) of costs were denominated in the units' functional currencies.

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

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2010			
If Hong Kong dollar weakens against US$	**5**	**(27,833)**	**–**
If Hong Kong dollar strengthens against US$	**(5)**	**27,833**	**–**
2009			
If Hong Kong dollar weakens against US$	5	(18,277)	–
If Hong Kong dollar strengthens against US$	(5)	18,277	–

* Excluding retained profits

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 30% (2009: 39%) and 85% (2009: 90%) 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 end of the reporting period, based on the contractual undiscounted payments, was as follows:

		2010	
Group	**Within 1 year HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**118,563**	**474,252**	**592,815**
Trade and bills payables	**2,155,090**	**-**	**2,155,090**
Other payables and accruals	**947,419**	**-**	**947,419**
	3,221,072	**474,252**	**3,695,324**

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

38. 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 2010 and 31 December 2009.

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 ends of the reporting periods were as follows:

Group	2010 HK$'000	2009 HK$'000
Interest-bearing bank borrowings	**592,815**	439,177
Total assets	**7,262,426**	5,725,107
Gearing ratio	**8.2%**	7.7%

39. EVENT AFTER THE REPORTING PERIOD

The Board proposes to increase the share capital of the Company by capitalising the share premium of the Company, pursuant to which bonus shares will be allotted and issued to the shareholders, whose names appear on the register of members of the Company on 23 May 2011, on the basis of 1 bonus share for every 10 ordinary shares held by the shareholders. Based on a total of 1,323,051,235 shares in issue as at 31 December 2010, 132,305,123 bonus shares will be issued by the Company. The share capital of the Company will increase from HK$132,305,000 to HK$145,536,000 upon completion of the bonus issue. The amount HK$13,231,000 will be capitalised from the Company's share premium account.

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

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 25 March 2011.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling 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				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**5,191,358**	4,439,991	2,525,895	1,768,418	1,550,441
Cost of sales	**(3,251,658)**	(2,758,068)	(1,579,861)	(1,087,161)	(963,901)
Gross profit	**1,939,700**	1,681,923	946,034	681,257	586,540
Other income and gains	**44,499**	38,807	19,083	23,766	11,799
Research and development costs	**(210,912)**	(167,024)	(132,253)	(91,087)	(76,267)
Selling and distribution costs	**(265,622)**	(234,153)	(185,811)	(134,953)	(107,472)
Administrative expenses	**(627,514)**	(544,051)	(370,112)	(271,712)	(243,942)
Other expenses	**(2,631)**	(10,171)	(3,554)	(1,534)	(6,954)
Finance costs	**(20,790)**	(12,722)	(13,405)	(7,973)	(15,918)
PROFIT BEFORE TAX	**856,730**	752,609	259,982	197,764	147,786
Income tax expenses	**(119,540)**	(142,291)	(27,493)	(7,193)	(16,561)
PROFIT FOR THE YEAR	**737,190**	610,318	232,489	190,571	131,225
Attributable:					
Owners of the parent	**724,326**	564,500	227,512	191,619	131,140
Non-controlling interests	**12,864**	45,818	4,977	(1,048)	85

Five Year Financial Summary

			31 December		
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**7,262,426**	5,725,107	3,452,397	2,759,342	2,416,552
TOTAL LIABILITIES	**(3,953,401)**	(3,131,992)	(1,463,390)	(1,054,392)	(1,009,693)
NON-CONTROLLING INTERESTS	**(69,501)**	(56,773)	(14,468)	(6,694)	(7,742)
	3,239,524	2,536,342	1,974,539	1,698,256	1,399,117

京信通信系統控股有限公司
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