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

STAYING AHEAD THROUGH INNOVATION IN TECHNOLOGY

PURSUING EXCELLENCE THROUGH EFFECTIVE MANAGEMENT

科技創新續領先機

效益管理再建佳績

2011

Annual Report 年報

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
No. 8 Science Park West Avenue
Hong Kong Science Park
Tai Po
Hong Kong

COMPANY SECRETARY

Tong Chak Wai, Wilson

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin (Chairman)
Yao Yan
Liu Cai

NOMINATION COMMITTEE

Liu Cai (Chairman)
Yao Yan
Lau Siu Ki, Kevin

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

The Hongkong and Shanghai Banking Corporation Limited
Level 10, HSBC Main Building
1 Queen's Road Central
Hong Kong

Australia and New Zealand Banking Group Limited
14th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

Svenska Handelsbanken AB (publ) Hong Kong Branch
2008 Hutchison House
10 Harcourt Road
Central
Hong Kong

Corporate Information

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

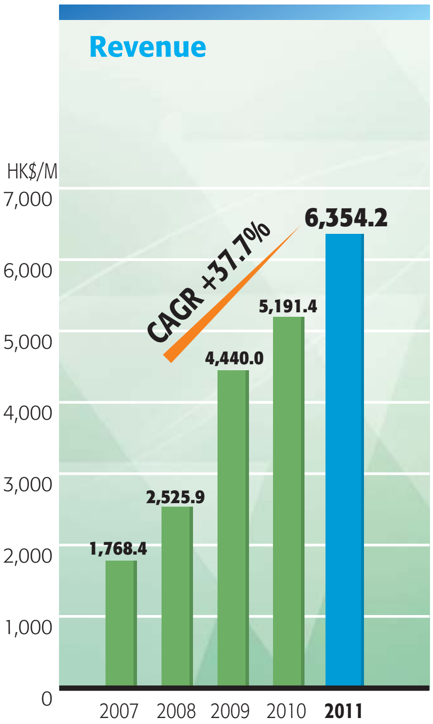
Standard Chartered Bank (Hong Kong) Limited
13th Floor Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

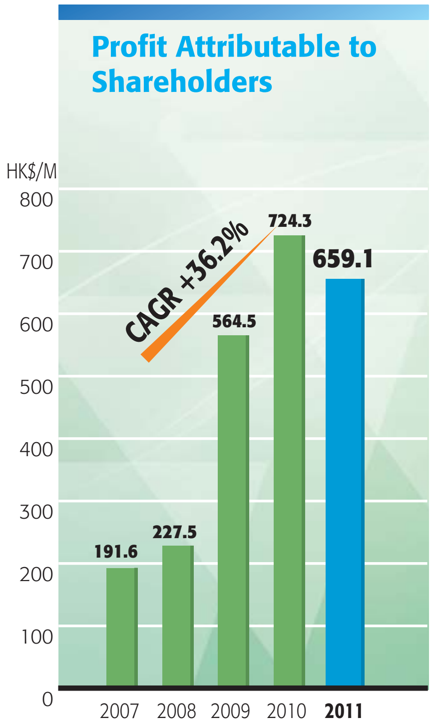
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road, GETD District
Guangzhou, PRC

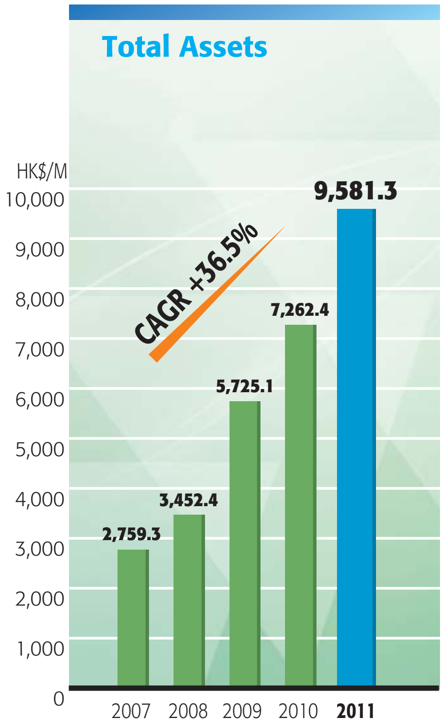
Industrial and Commercial Bank of China Limited
GETD District Sub-branch
No.2 Xiangxue Road
Kaichuang High Road North
Guangzhou Science City, Luogang District
Guangzhou, PRC

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

Financial Summary

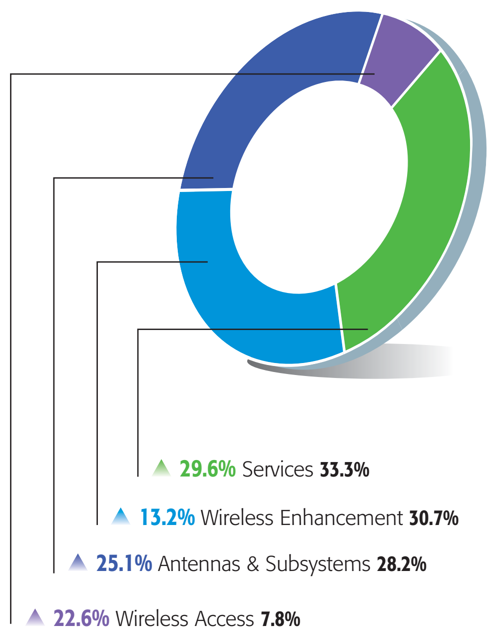






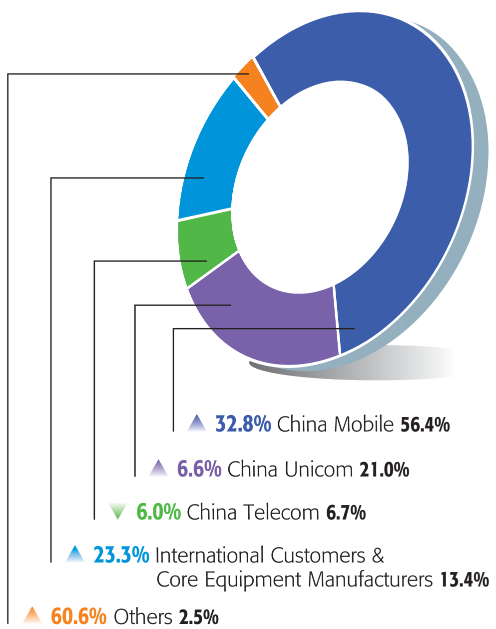
Revenue Breakdown by Businesses

▲ = YoY change



Revenue Breakdown by Customers

▲ / ▼ = YoY change



FINANCIAL SUMMARY

For the year ended 31 December	2011 HK$'000	2010 HK$'000	Change
Revenue	**6,354,218**	5,191,358	+22.4%
Gross profit	**2,326,697**	1,939,700	+20.0%
Operating profit	**805,919**	877,520	(8.2%)
Profit attributable to shareholders	**659,084**	724,326	(9.0%)
Basic EPS (HK cents)	**43.99**	50.43 *(restated)*	(12.8%)
Interim dividend per share (HK cents)	**5.0**	6.0	(16.7%)
Proposed final dividend per share (HK cents)	**7.0**	8.0	(12.5%)
Proposed special dividend per share (HK cents)	**0.0**	4.0	N/A
Total dividends (HK cents)	**12.0**	18.0	(33.3%)
Weighted average number of shares (million shares)	**1,521.7**	1,279.4	+18.9%
Proposed/paid total dividend (HK$ million)	**182.6**	230.3	(20.7%)

KEY FINANCIAL FIGURES

As at 31 December	2011 HK$'000	2010 HK$'000	Change
Total assets	**9,581,332**	7,262,426	+31.9%
Net assets (before non-controlling interest)	**4,014,064**	3,239,524	+23.9%
Net assets value per share (HK dollars)	**2.63**	2.23 *(restated)*	+17.9%
Cash and bank balances	**1,201,258**	1,493,587	(19.6%)
Net (debt)/Cash	**(9,603)**	880,084	N/A
Total liabilities	**5,498,508**	3,953,401	+39.1%
Inventory turnover days	**188**	187	+1 day
A/R turnover days	**209**	176	+33 days
A/P turnover days	**233**	221	+12 days
Return on average equity	**18.2%**	25.1%	(6.9%) pts
Gross gearing ratio	**11.7%**	8.2%	+3.5% pts
Dividend payout ratio*	**27.3%**	32.4%#	(5.1%) pts

* *Calculation is based on basic EPS.*

\# *Calculation is based on the number of shares issued as at 31 December 2010.*

Corporate Milestone 2011

Projects

Hubei — Wireless Enhancement Project for Wuhan International Conference and Exhibition Center

Shandong — Wireless Enhancement Project for Qingdao Jiaozhou Bay Bridge

Guangdong — IBS Project for Wanda Plaza in Baiyun District, Guangzhou

Taiwan — Wireless 2G and 3G Coverage Solution for Taiwan High Speed Rail

Middle East — IBS Project for Etisalat

Chile — 2G/3G Wireless Enhancement Project for Costanera Centre (the tallest building in South America)

Indonesia — IBS Project for Central Park (Brand New Commerical District) in Jakarta

Exhibitions

P&T/EXPO COMM CHINA 2011, Beijing, China

Mobile World Congress 2011, Barcelona, Spain

Innovative Products, Technologies & Solutions

Successful trials of Indoor Broadband Wireless Access System (the "IB-WAS") products

Successful trials and application of DAS products

Successful trials of TC2000 Base Station Amplifier in Detroit, USA

Secured the first customized Dielectric Filter order

Secured the first Cluster Antenna order for a project in Brazil

Successful development of the Mining Intelligent System, and application in the "E-Mining" Project in Jining, Shandong

Launch of Integrated Camouflaged Antenna Solutions for buildings and areas

Launch of JS-K60 Automatic Portable Satellite Station

Awards

"The Innovation Award", The 3rd Leading Brand China Award

"2011 Top 100 Information Technology Companies in the PRC", CEOCIO China and Business Next Beta Magazine

"Asia's Best Companies", FinanceAsia

Chairman's Statement

Mr. Fok Tung Ling
Chairman

Chairman's Statement

The year 2011 was a year of challenges. Deepening European sovereign debt crisis, difficult global economic environment and high volatility across the market prevailed over the year. Though the economy has shown signs of recovery at the beginning of 2012, the prospect remains uncertain. Despite the gloom, the PRC, the major market of the Group, demonstrated a relatively stable economic growth with its GDP registered a year-on-year increase of 9.2% in 2011. In addition, the Group successfully marked a new milestone in the development of international market attributable to the satisfactorily growing emerging economies, which was another growth driver of the Group, in 2011.

23.9%

Net Assets

HK$4,014,064,000

Chairman’s Statement

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 2011 (the “Current Year”).

The year 2011 was a year of challenges. Deepening European sovereign debt crisis, difficult global economic environment and high volatility across the market prevailed over the year. Though the economy has shown signs of recovery at the beginning of 2012, the prospect remains uncertain. Despite the gloom, the PRC, the major market of the Group, demonstrated a relatively stable economic growth with its GDP registered a year-on-year increase of 9.2% in 2011. In addition, the Group successfully marked a new milestone in the development of international market attributable to the satisfactorily growing emerging economies, which was another growth driver of the Group, in 2011.

Telecommunications industry is one of the pillar industries in the PRC and it is also an important impetus that fuels the economic and social development of the country. Therefore, the telecommunications industry has been developing very rapidly in recent years under the substantial support by the Chinese government. According to the statistics provided by the Ministry of Industry and Information Technology of the People’s Republic of China, the core business revenue of telecommunications increased by 10%, surpassing the China’s GDP growth for the year ended 2011. This illustrated the telecommunications industry plays a pivotal role in promoting the social economic development of the PRC. As at the end of 2011, the number of mobile subscribers in the PRC reached 986 million, with net adds hitting the record high of 127 million and the prevalence rate rising to 73.6%. 3G became a major momentum of growth, with an accumulative mobile subscribers of nearly 130 million, representing a substantial increase of 60% over 2010. 3G’s penetration rate has also climbed to 13%.

By virtue of the robust telecommunications industry in the PRC, the Group achieved a satisfactory growth in all business segments during the Current Year and reached a new height again for its turnover. During the Current Year, the Group’s turnover increased by 22.4% over the year ended 31 December 2010 to HK$6,354,218,000. Meanwhile, the Group made a visionary decision to accelerate its investments in innovative technology which is considered to be essential to the long-term development of the Group. Therefore, during the Current Year, profit attributable to shareholders dropped by 9.0% to HK$659,084,000 due to the increase of research and development (“R&D”) investment and exceptional expenses. As an appreciation of the shareholders’ continuous support, the board of directors of the Company (the “Board”) recommended distributing a final dividend of HK7 cents per ordinary share. Together with the paid interim dividend of HK5 cents per ordinary share, the Company will pay a total dividend of HK12 cents per ordinary share for the Current Year.

Mobile networks develop at a tremendous pace and many countries currently deploy a number of different mobile networks, resulting in strong demands for wireless network enhancement. The Group always stays focus on the business of wireless enhancement and owns a wide range of product offerings. Leveraging on innovative technology, solid experience, excellent service and nationwide network, the Group is committed to providing premium products and solutions for mobile operators. In the past few years, the Group made remarkable achievements and stayed at the leading position in the domestic market, and became the preferred cooperative partner of the mobile operators. During the Current Year, the Group completed a number of milestone wireless network coverage projects, including Shandong Qingdao Jiaozhou Bay Bridge, Hubei Wuhan International Conference and Exhibition Center and Guangzhou Baiyun Wanda Plaza etc.

In respect of the international market, during the Current Year, the Group continued to actively expand the sales network, devote more efforts on marketing, further deepen more international markets, and steadily enhance the market penetration rate. During the Current Year, the Group achieved outstanding results in international customers and core equipment manufacturers with revenue amounted to HK$851,238,000, representing an increase of 23.3%. During the Current Year, the Group acquired a number of major projects, including 2G/3G wireless coverage solutions for Costanera Centre, the tallest building in South America and the large scale indoor wireless coverage solutions for Central Park, which is located at the new premier commercial zone of downtown Jakarta. These projects fully demonstrate that the Group’s expertise is widely recognized by international mobile operators.

In 2011, the Group established a wireless access business division and committed substantial resources to the R&D projects on Indoor Broadband Wireless Access System (the "IB-WAS"), WiFi and LTE technologies. In particular, the IB-WAS, which is developed on the basis of Femto system and applicable in the products of 2G/3G networks including network gateway, enterprise-level AP, home-level AP and network management systems etc, successfully passed a series of online tests and achieved remarkable results. Such products not only provide brand new solutions for wireless enhancement, but also expose the Group to opportunities in wireless access and end-to-end solutions where the prospects are promising.

The Group believes that 2G network will remain to be the major mobile network as a result of its largest mobile subscriber base, and hence stable and on-going demand for wireless enhancement is expected. On the other hand, due to the increasing popularity of smartphones and radical changes in the habits of mobile users, 3G networks will be further developed and the 3G subscriber base will continue to expand, thus driving substantial demand for 3G network enhancement. In addition, WLAN also became a new area of growth. In 2011, the three PRC mobile operators actively invested in and sped up the deployment of WLAN hot spots. The Group expects that the number of hot spots will increase by folds and the growth potential of the WLAN market is very promising. In respect of 4G, TD-LTE and FD-LTE are becoming the inevitable future direction of the industry. When the China's home grown TD-LTE technology further matures and the pace of the development of the whole TD-LTE ecosystem speeds up, more overseas mobile operators will begin to deploy TD-LTE networks. In 2011, the trial networks were successfully launched in the six cities in the PRC; the second phase of larger trial network will soon commence. Construction of base stations in more cities will also begin subsequent to the expansion of TD-LTE networks in those cities. Mobile operators have planned to construct over 20,000 TD-LTE base stations and conduct commercial trial run of the TD-LTE networks in several major cities. The Group strongly believes that the network enhancement providers will continue to be benefited by the trend of synergistic development of the four networks, namely 2G, 3G, 4G and WLAN, in a long run. With increasing complexity of multiple networks environment, network enhancement tends to become more professional, and mobile operators will focus not only on cost efficiency, but also be more concerned about if the solutions can promote a balanced long-term development in the whole network.

The Group expects 2012 is even more challenging than 2011 in respect to the industry development. The Group will endeavor to achieve breakthroughs in various aspects such as technologies, applications and marketing of the new products. The Group is full of confidence that the new products will become the new highlights of the Group and help capture the opportunities ahead of its competitors.

In addition to innovative technology, effective management is another key to promote better results. In the past few years, the Group devoted more resources to cope with the continued expansion. The Group will implement further stringent cost control measures, resources allocation and key performance index management with the aim to strengthen the management and maximize the economies of scale, thereby achieving better results again.

"Staying Ahead through Innovation in Technology, Pursuing Excellence through Effective Management". We are fully confident in our future, and well-prepared to face the challenges of the coming year. Moreover, by faithfully adhering to the spirits of being "professional, honest, innovative and reliable", together with efficient execution ability, the Group is ready to capture growth opportunities and create more values for the shareholders through implementation of sound business strategies.

Last but not least, on behalf of the Board, I would like to express my heartfelt thanks to all staff of the Group for their unrelenting efforts during the year, and express my gratitude to the customers, business partners and the shareholders. The outstanding achievements of the Group are really attributable to the support of all of the above parties, and we look forward to your continue trust and support in the future.

Fok Tung Ling
Chairman
Hong Kong, 21 March 2012

22.4%

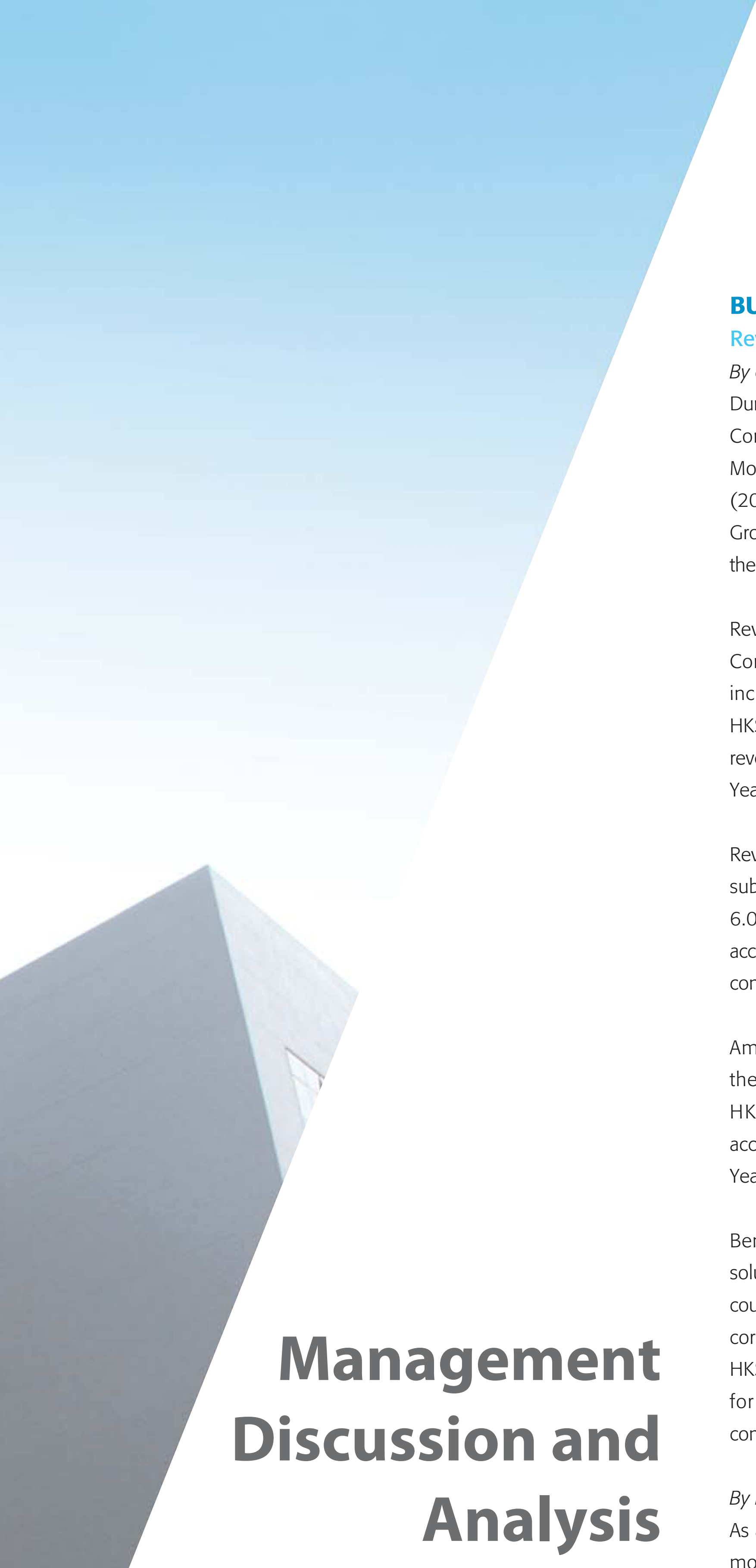
Revenue

HK$6,354,218,000

Driven by the continuously increasing number of mobile subscribers, growing concern on network quality, availability of more affordable smartphones and a stunning growth in data traffic volumes, the Group reported a 22.4% revenue growth amounted to HK$6,354,218,000 (2010: HK$5,191,358,000) for the year ended 31 December 2011 (the “Current Year”) as compared to the year ended 31 December 2010 (the “Prior Year”).

Mr. Zhang Yue Jun

Vice Chairman and President



Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Revenue

By customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") increased by 32.8% to HK$3,582,584,000 (2010: HK$2,696,890,000) and accounted for 56.4% of the Group's revenue in the Current Year, compared to 52.0% for the Prior Year.

Revenue generated from China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased slightly by 6.6% to HK$1,333,343,000 (2010: HK$1,250,247,000) and accounted for 21.0% of the Group's revenue in the Current Year, compared to 24.1% in the Prior Year.

Revenue generated from China Telecom Corporation and its subsidiaries ("China Telecom Group") decreased slightly by 6.0% to HK$426,195,000 (2010: HK$453,432,000) and accounted for 6.7% of the Group's revenue in the Current Year, compared to 8.7% in the Prior Year.

Among these revenue streams, revenue generated from the China's 3G mobile networks increased by 38.1% to HK$2,045,000,000 (2010: HK$1,481,000,000) and accounted for 32.2% of the Group's revenue in the Current Year, compared to 28.5% in the Prior Year.

Benefited by the solid demand for wireless enhancement solutions from emerging markets and some southeast Asian countries, revenue generated from international customers and core equipment manufacturers also increased by 23.3% to HK$851,238,000 (2010: HK$690,603,000) and accounted for 13.4% of the Group's revenue in the Current Year, compared to 13.3% in the Prior Year.

By businesses

As a result of the shifting of focus on quality network by some mobile operators, thus increasing more resources allocated to network enhancement, revenue generated from wireless enhancement business in the Current Year increased by 13.2% to HK$1,948,091,000 (2010: HK$1,720,333,000) and accounted for 30.7% of the Group's revenue, compared to 33.1% in the Prior Year.

Management Discussion and Analysis

Driven by the shortening replacement cycles of antennas for the improvement of network quality and the continuous network buildouts by some mobile operators, revenue generated from antennas and subsystems business in the Current Year increased by 25.1% to HK$1,795,136,000 (2010: HK$1,434,758,000) and accounted for 28.2% of the Group's revenue, compared to 27.6% in the Prior Year.

Benefiting from the ambitious WLAN deployment plans of the PRC mobile operators, revenue generated from the wireless access business in the Current Year increased by 22.6% to HK$495,474,000 (2010: HK$404,092,000) and accounted for 7.8% of the Group's revenue, compared to 7.8% in the Prior Year.

Demand from services, including consultation, commissioning, network optimization, project management, and after-sales maintenance services, has been trending up as a result of the booming increase of data traffic and growing complexity of network systems, consequently, revenue from services increased by 29.6% to HK$2,115,517,000 (2010: HK$1,632,175,000) in the Current Year, and accounted for 33.3% of the Group's revenue, compared to 31.5% in the Prior Year.

Gross profit

During the Current Year, the gross profit increased by 20.0% to HK$2,326,697,000 (2010: HK$1,939,700,000). The Group's gross profit margin was 36.6% in the Current Year compared to 37.4% in the Prior Year. The slight decrease in gross profit margin was mainly due to the increase of labor costs and inflation in the PRC, but partially offset by some new products and solutions with higher gross profit margins. During the Current Year, a stock provision of HK$27,254,000 (2010: Nil) for the obsolete stock was recorded.

The Group has implemented various cost control measures including streamlining the manufacturing process, optimizing the product design through advanced research and development technology, improving logistics management, and negotiating with suppliers for better terms of delivery. The Group has also been continuously expanding its market coverage and broadening 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 intends to continue its focus on developing advanced products adding high value to customers.

Gain on bargain purchase

On 20 June 2011, the Group entered into an agreement to acquire 100% interest in the subsidiaries, which are engaged in the research and development, manufacturing and sales of telecommunications products with a view to expanding the Group's market share in the telecommunications equipment industry. The Group paid a cash consideration of HK$84 million, which resulted in a gain on bargain purchase of HK$48 million, mainly arising from an appreciation of the land and buildings.

Research and development costs

During the Current Year, the research and development ("R&D") costs increased significantly by 71.6% to HK$361,914,000 (2010: HK$210,912,000), representing 5.7% (2010: 4.1%) of the Group's revenue. The Group has always been attaching great importance in R&D as the management strongly believes innovation technology is the major factor driving the future growth of the Group to achieve greater success. During the Current Year, the increase in R&D costs was mainly attributable to 1) expansion of the R&D teams; 2) continuous investment in the development and expansion of product offerings; and 3) investment in improvement of product quality for higher operational efficiency and greater cost effectiveness.

With its continuous investment in R&D, the Group achieved significant accomplishments in creating solutions with intellectual property rights and has applied for more than 940 patents (As at 31 December 2010: more than 680 patents) as at the end of the Current Year.

Selling and distribution costs

During the Current Year, selling and distribution costs increased by 64.6% to HK$437,088,000 (2010: HK$265,622,000), representing 6.9% (2010: 5.1%) of the Group's revenue. The increase in selling and distribution costs was mainly due to the increases in the sales staff salaries and their related awarded share expenses, and consultancy fees as a result of the increased consolidated revenue and global expansion of the sales and service networks of the Group.

Administrative expenses

During the Current Year, administrative expenses increased by 32.4% to HK$830,714,000 (2010: HK$627,514,000), representing 13.1% (2010: 12.1%) of the Group's revenue. The increase in administrative expenses was mainly due to increases in administration staff salaries and their related awarded share expenses, and office expenses as a result of the enlarged support teams for the global operations.

Awarded shares expenses

On 12 April 2011, the Board resolved to award 26,000,000 shares to 365 selected persons under the share award scheme adopted on 25 March 2011, by way of issue and allotment of new shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. These awarded shares will be held in trust for the selected persons by the trustee appointed by the Company until the end of each vesting period. For these awarded shares, there were 4 vesting dates, which are 12 July 2011, 12 April 2012, 12 April 2013, and 12 April 2014. Upon each vesting date, those awarded shares will be transferred at no cost to the selected persons.

The fair value of the 26,000,000 awarded shares was HK$226 million, measured at the closing market price of HK$9.32 per share at the date of grant and amortized over each of the vesting period up to 12 April 2014. During the Current Year, the awarded shares expenses amounted to HK$145 million. For the full years of 2012, 2013 and 2014, the awarded shares expenses are estimated at HK$54 million, HK$23 million and HK$4 million respectively.

Finance costs

During the Current Year, finance costs increased by 41.4% to HK$29,403,000 (2010: HK$20,790,000), representing 0.5% (2010: 0.4%) of the Group's revenue. The increase in finance costs was mainly due to increases in the interest rate and 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. As of 31 December 2011, the gross gearing ratio, defined as total interest-bearing borrowings divided by total assets, of the Group stood at a healthy level of 11.7% compared to 8.2% as of 31 December 2010.

Operating profit

During the Current Year, the operating profit decreased slightly by 8.2% to HK$805,919,000 (2010: HK$877,520,000) as compared with the Prior Year. During the Current Year, as a consequence of the expense incurred due to the share award scheme and an increase in R&D costs, the operating profit margin decreased by 4.2% points to 12.7% in the Current Year, as compared with 16.9% in the Prior Year.

Tax

During the Current Year, excluding those major non-taxable items of gain on bargain purchase and awarded share expenses, taxation charges increased by 1.9% to HK$121,772,000 (2010: HK$119,540,000), comprising profits tax charge of HK$120,960,000 (2010: HK$124,201,000) and deferred tax charge of HK$812,000 (2010: deferred tax credit of HK$4,661,000). During the Current Year, effective tax rate was 15.7% (2010: 14.0%). The increase in overall taxation charge was mainly due to the reversal of deferred tax credit arising from a reduced unrealized profit on intra-group transactions during the Current Year as compared with the Prior Year.

Net profit

During the Current Year, profit attributable to shareholders ("Net Profit") decreased by 9.0% to HK$659,084,000 (2010: HK$724,326,000), representing 10.4% (2010: 14.0%) of the Group's revenue. The decrease in Net Profit was mainly due to: 1) a slight decrease of gross profit margin by 0.8% point including a stock provision of HK$27 million, 2) an increase of R&D costs by HK$151 million (including expenses of HK$15 million arising from the awarded shares granted to R&D staff), and 3) awarded shares expenses of HK$145 million. However, excluding the exceptional items of the increase of R&D costs, a stock provision, awarded shares expenses and gain on bargain purchase arising from an acquisition, the Group's Net Profit would be HK$919 million, representing 14.5% of the Group's revenue.

Dividend

The Group puts 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 a final dividend for 2011 of HK7 cents (2010: HK8 cents) per ordinary share. Together with the interim dividend of HK5 cents (2010 interim: HK6 cents) per ordinary share paid on 19 September 2011, the total dividends for the whole year is HK12 cents (2010: HK18 cents) per ordinary share, and the total payout ratio, on the basis of basic EPS, is 27.3% (2010: 32.4%, based on the number of shares issued as at 31 December 2010), in which the payout ratio for final dividend is 15.9% (2010: 14.4%, based on the number of shares issued as at 31 December 2010), and for interim dividend is 11.4% (2010: 10.8%, based on the number of shares issued as at 31 December 2010).

PROSPECT

The US and some European countries have recently been getting through the economic trough, banks have tightened the bank borrowings, and the mobile operators are getting more cautious in their capital expenditure planning. Thus, it is expected that the international telecommunications industry may experience some difficulties in the short run.

Despite the looming economic uncertainties, the management believes that the industry fundamentals for longer term development remain positive. The telecommunications industry is relatively less susceptible to economic swings as mobile devices become an integral part of peoples' daily lives, evidenced by the continuous upward trends of global mobile device penetration and subscribers over the years. Globally, the number of mobile connections reached over 6 billion in 2011.

The growth in mobile connections and users is expected to continue with 3G and 4G connections driving the development. Particularly in the PRC, telecommunications is one of the pillar industries and has been experiencing a healthy growth under the strong support from the Government in boosting the development of telecommunications technology. The PRC currently has the largest number of mobile subscriber base in the world at 986 million with further growth expected.

More importantly, the changes in the habits of mobile users have tremendously influenced the development of the telecommunications industry. People are adopting more advanced mobile devices that enable connectivity anytime and anywhere, data traffic is growing rapidly at an astonishing rate driven by the continued strong momentum for smartphone uptake in all regions. Mobile operators are recording larger revenue contribution from data services leading to increasing focus on enhanced network quality and efficiency. As such, the Group believes that the demand for network enhancement remains intact and the long-term prospects continue to be promising.

In respect to the mobile technology, 2G continues to be the lead given its substantial large customer base built over the years in different regions, while 3G networks are gaining the importance as a result of the proliferation of affordable smartphone. Given that the mobile subscribers are more network quality-concerned, and mobile operators have to divert more investment in optimization of both 2G and 3G networks with the aim to provide better user experience.

After years of development, 4G LTE network rollouts are increasing and expected to accelerate in the future. The number of commercial LTE networks globally reaches 50 networks in 20 countries and is expected to be in excess of 200 networks in 70 countries by 2016. LTE is expected to be the fastest growing segment with over 500 million LTE connections globally by 2016. In addition, China's home-grown 4G technology, TD-LTE, has become future direction of the industry. LTE ecosystem development is proceeding in full speed ahead. Second phase of a bigger TD-LTE trial network in the PRC will kick off in the near future. The management believes that the evolution of new networks will be beneficial to many telecom equipment and solutions providers including Comba.

In fact, the Group has already demonstrated its unsurpassed capabilities as one of the leading enablers of next generation LTE networks for mobile operators in some Asian regions. Last year, the Group supplied to the mobile operators a wide portfolio of LTE compatible equipment including repeaters, indoor antennas, and combiners amongst other items. With a firm grasp of core technologies, the Group will capitalize on its solid experience and technical expertise in LTE to seize the huge opportunities arising from the anticipated commercial launch of the 4G network in the future.

Wireless Access

The Group always dedicates to unveil new product offerings and solutions that enable unequalled network performance. In addition to expanding the depth and breadth of its existing product offerings, the Group's flat architecture wireless access system, Indoor Broadband Wireless Access System (the "IB-WAS"), was tested by the mobile operators and received positive responses. The IB-WAS will provide a new access solution to the 2G, 3G and the 4G networks of the mobile operators. It is the best and higher cost-effective solution to address the imminent problems of the mobile operators with respect to the accuracy, depth and capacity of the coverage, the convenience of access and the environmental protection issues. The management believes that this new solutions will unlock its true value in the near future, and will become a key driver to bring the Group to a new stage of growth.

In respect to WLAN business, the hotspot deployment in the PRC is still at the initial stage. WLAN business is believed to be a new area of growth which not only provides a new revenue model to mobile operators, and more importantly, play a vital role in increasing mobile operators' capacity by offloading some of the booming data traffic on the current mobile networks.

Hotspot deployments are flexible, scalable, easy to upgrade and maintain. They represent a highly cost-effective and instant solution for in-door network coverage and are welcomed by many mobile operators. In addition, more laptops, smartphones and consumer electronics devices are embedded with a WLAN function. WLAN is gaining momentum, and the WLAN market has entered a new stage of rational growth.

Wireless Enhancement

In 2012, the management expects demand for wireless enhancement will remain solid and the contribution from wireless enhancement will continue to grow. The Group always emphasizes that network enhancement is an on-going process for both existing and new networks alike. Demand of network optimization not only depends on the network (2G/3G/4G/WLAN) technology development and network maturity, but even more so on the subscriber number, traffic pattern, changes in the habits of mobile device users, urban planning and infrastructure etc. With an increasing population, a burgeoning middle class, and urbanization, it is obvious that mobile subscribers, new buildings and infrastructures continue to increase around the world, and these factors will inevitably drive the demand for network enhancement.

With mobile communications evolving along a 2G/3G/4G continuum, multi-mode smartphones are enjoying a rapid and widespread take-up. Today, mobile phone is not only a tool for voice communication but is also a portable device for data applications. The rapidly growing popularity of the multi-mode smartphones and the emergence of various software applications have led to the surge of data traffic with a tremendous impact on the existing mobile networks which in turn drives the demand for wireless enhancement solutions. In addition to the basic requirements for quality coverage, such demand has also posed two new challenges, i.e. multi-mode application (GSM+TD-SCDMA+WLAN; GSM+WCDMA+WLAN; CDMA+WLAN, etc), and high-speed data streaming.

In order to meet the market demand, the Group introduced various new products such as the MDAS series in 2011 which enable multi-mode coverage as well as high-speed data transfer. These products are well received by the customers with sales increased rapidly. The Group believes that such products will continue to exert influence which in turn contributes to the Group's revenue.

During the Current Year, the Group successfully completed a number of milestone network optimization projects including Qingdao Jiaozhou Bay Bridge, Hubei Wuhan International Conference and Exhibition Center, Indoor Building Solution Project for Etisalat in Middle East, Costanera Centre, the tallest building in South America etc. Going forward in 2012, the Group has more potential projects in the pipeline and will strive to provide a wider range of premium quality and differentiating offerings to its customers in order to deliver better results. The combination of leadership in innovative technology, end-to-end solutions, professional services and support gives Comba an unrivalled capability to support its customers, and the management is confident that the Group can maintain its leadership in the PRC wireless enhancement market in the future.

Antennas & Subsystems

The Group has been the market leader in the PRC for antennas and subsystems as well as one of the top antenna suppliers in the world to many of the major multinational mobile operators over the years. The Group has continuously expanded its product portfolio by adding various multi-mode, highly-efficient and, environmentally-friendly antennas to meet customer-specific requirements.

The Group expects that antennas and subsystems will continue to provide a stable revenue contribution as the mobile operators gradually replace the old-model antennas in order to maintain and enhance network quality. Moreover, the Group successfully implemented its strategy as a turnkey solution provider which in turn drives the demand for indoor antennas.

Globally, mobile operators are facing challenges in scarcity of physical space on cell sites and towers as they roll out new systems. Seeking to optimize site acquisition investments, operators are increasingly loading up new system equipment on existing sites resulting in a plethora of equipment such as base station antennas on cell sites and towers. As such, the Group has developed a series of co-siting solutions that enables multiple system coverage on a single antenna, thereby reducing the overall footprint and maintenance costs for the mobile operators. These solutions have gained market acceptance and the Group expects these to gain further traction in the future.

Wireless Transmission

In respect to Digital Microwave Systems ("DMS") business, DMS are deployed by mobile operators as a last mile mobile backhaul solution and becoming increasingly attractive with the growth of data demands on networks. Since network capacity, reliability and speed are dependent on mobile backhaul, DMS is an attractive alternative to wireline based backhaul solutions. During the Current Year, the Group continued to invest in the development of DMS in terms of technology and form factor. In particular, the Group's IP-based solutions have seen good uptake in the market and is confident of continued growth in the future. The Group expects the growth in LTE and therefore associated increased backhaul requirements for the LTE small cell will act as a further driver of revenue growth of the DMS.

Even though DMS business remained inactive in the Current Year as the Indian market continued to show no significant improvement, the management diverted more efforts in promoting the DMS sales from India to several south-east Asian countries, and realized significant progress during the Current Year. The Group will adhere to this strategy to expand revenue sources and to offset the negative impact from the Indian market.

In addition, in respect of satellite emergency communication, it has achieved rapid development and played a major role in major events and contingencies as strong emphasis has been laid upon disaster relief in the PRC in recent years. Under the State's policy of strengthening and innovating social management set forth in the outline of the national "Twelfth Five-Year Plan", the Central Government will fully enhance and optimize the public security system by making improvements on the mechanism of precaution and prevention as well as contingencies response system for accidents, disasters, public hygiene, food safety and social security. In the Prior Year, the Group successfully extended its product portfolio to satellite emergency communication systems providing robust and reliable communications for users in emergency situations such as earthquake, flooding and fire. The Group believes that such products will become a new driver for its future growth.

Services

The Group expects the contribution from services will continue to be its growth driver. The services provided by the Group include network design and optimization, 3G mobile network modification and upgrade, system installation and after-sales maintenance etc. With increasing complexity of network systems, the ability to provide end-to-end and reliable services becomes an important factor considered by customers. Rather than pure cost-conscious, customers are more concerned about long-term benefits, product sophistication and reliability, services flexibility, and after-sales maintenance availability — areas in which the Group excels in.

Recognizing the rising importance of quality of service, the Group continues to expand its presence across the globe in a prudent manner. Currently, its sales and engineering team comprising over 6,000 engineers covers the PRC, some emerging markets, and several southeast Asian countries. Equipped with extensive expertise and industry experience, the Group's professional team understands thoroughly the requirements of a wide range of customers, and is committed to delivering the best end-to-end service, unique value and the highest customer satisfaction.

Conclusion

The management remains optimistic about the long-term fundamentals of the Group. From the beginning of repeater vendor, Comba successfully demonstrated to the market that its efforts to achieve innovation did make a series of remarkable breakthroughs. As a result, the Group has now become a leading player in the wireless enhancement market. This year is set to become another transformative year for the Group during which its business is extending to beyond wireless enhancement.

Innovative mobile devices cannot unlock their true potential without a quality and reliable network. Network enhancement solutions are the keys to maintain a quality and reliable network. Comba has been displaying its strength in providing these keys and building the most trusted brand in the market, evidencing by its continuing market leadership over the years. Within its traditional business, the Group is adhering to its mission to provide superior solutions to our customers enabling them to solve their greatest challenges, which in turn will drive greater value for customers while solidifying its leadership position in the market. To develop new business, the Group is determined to make great leaps forward in exploring new areas of growth capitalizing on Indoor Broadband Wireless Access System (the "IB-WAS") and other innovative solutions in accordance with its strategic and visionary planning. Aiming to reach new heights, the Group will allocate more human resources and a greater investment in R&D. The management is confident that the seeds the Group is sowing today will yield the fruit of greater success in the future.

The Group will never rest content with its leadership position in the PRC. Moving forward, the PRC market will continue to be the Group's major focus, whereas, the Group will make strides towards enhancing its foothold by capitalizing on its long-term partnerships with successful mobile operators. Currently, the Group has already established its presence in the Americas, Asia, and Europe, and will further extend its reach whenever appropriate opportunities arise.

All in all, the Group is firmly committed to delivering long-term value to its customers, business partners, shareholders, employees, and the society with the target "Staying Ahead Through Innovation In Technology, Pursuing Excellence Through Effective Management".

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances for its operations from cashflow generated internally and bank borrowings. As at 31 December 2011, the Group had net current assets of HK$3,326,710,000. Current assets comprised inventories of HK$2,421,044,000, trade receivables of HK$4,268,084,000, notes receivable of HK$68,472,000, prepayments, deposits and other receivables of HK$450,810,000, restricted bank deposits of HK$79,813,000 and cash and cash equivalents of HK$1,114,412,000. Current liabilities comprised trade and bills payables of HK$2,981,163,000, other payables and accruals of HK$1,186,559,000, derivative financial instrument of HK$698,000, interest-bearing bank borrowings of HK$719,272,000, tax payable of HK$119,001,000 and provisions for product warranties of HK$69,232,000.

The average receivable turnover for the Current Year was 209 days compared to 176 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 233 days compared to 221 days for the Prior Year. The average inventory turnover for the Current Year was 188 days compared to 187 days for the Prior Year.

As at 31 December 2011, 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$ and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, on 5 July 2010, the Group had entered into a three-year term loan facility agreement (the "Facility Agreement"), amounted to US$130,000,000, 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 to reduce interest expense. Under the Facility Agreement, 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 entire issued shares (of each class) of and equity interests in the Company free from any security. As at 31 December 2011, the Group had fully utilized the facility of US$130,000,000 and repaid US$26,000,000.

As at 31 December 2011, the Group held an interest rate swap contract designated as hedges in respect of expected interest payments for the above-mentioned US$ floating rate loan under the Facility Agreement.

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 11.7% as at 31 December 2011 (31 December 2010: 8.2%).

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the "Business and Financial Review" under the heading "Gain on bargain purchase", the Group has not conducted any material acquisitions and disposals of subsidiaries and associated companies during the Current Year.

CHARGE ON ASSETS

Refer to the acquisition as disclosed in the "Business and Financial Review" under the heading "Gain on bargain purchase", a newly acquired subsidiary had pledged its own property for a bank facility up to approximately HK$97,500,000 prior to the completion of the acquisition. As at 31 December 2011, the aforesaid charge was discharged. Save as disclosed herein, there was no other charge on the Group's assets (31 December 2010: Nil).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had contingent liabilities of HK$93,776,000 (31 December 2010: HK$39,225,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group had approximately 11,500 staff. The total staff costs for the Current Year were HK$1,149,136,000. 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, awarded shares and discretionary bonuses are granted to eligible staff based on the performance of each such employee 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 55, chairman of the Board. Mr. Fok is primarily responsible for leading the Board in determining the directions of overall strategies and business development for the Group. 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 30 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 (張躍軍), aged 53, vice chairman and president. Mr. Zhang is responsible for the Group's overall operation, management, business development, research and development of new technologies and products and quality control. 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 29 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 40, 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's degree in economics from Murray State University, and a bachelor's 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 Chartered Secretaries. Mr. Tong has over 17 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 52, 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 19 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. Zhang Yuan Jian

Mr. Yan Ji Ci (嚴紀慈), aged 57, 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 36 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 46, 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 a member of the Institute of Electrical and Electronics Engineers (IEEE). Mr. Zheng has over 25 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 39, executive director and president 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 16 years of experience in the telecom industry. He joined the Group in 2004.

Mr. Zhang Yuan Jian (張遠見), aged 54, executive director. He is also the senior vice president of the Group, the director of the Central Research Institute of the Group and the general manager of the wireless access product business division of the Group. He is in charge of the technical research of the Central Research Institute of the Group and responsible for the research and development and operational management of the product lines of wireless access products. He graduated from the University of Science and Technology of China (中國科學技術大學) and the Electronic Engineering Research Center of Nanjing (南京電子工程研究中心) (currently known as the Nanjing Institute of Electronic Technology (南京電子技術研究所)) and obtained a master's degree in microwave technology in 1984. He has over 28 years of experience in the technical research on wireless communications, product development and relevant management. 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 74, independent non-executive director. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Yao is currently the deputy director of Academy Committee of State Key Lab and a professor in the Department of Electronic 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 53, independent non-executive director. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. He has over 30 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 was a member of the world council of ACCA from 2002 to 2011 and was the Chairman of the Hong Kong Branch of ACCA 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 five other companies listed on the main board of the Stock Exchange namely 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 Carry Wealth Holdings Limited, Greenfield Chemical Holdings Limited and Proview International Holdings Limited until his resignation on 13 July 2011, 11 June 2010 and 24 August 2010 respectively. Mr. Lau joined the Group in 2003.

Mr. Liu Cai (劉彩), aged 71, independent non-executive director. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company. 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, Mr. 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, Mr. 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 (北京郵電大學)). Mr. Liu has also been an independent 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 Jin Yu, Charles (張金玉), aged 48, 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 21 years of experience in accounting and financial management and joined the Group in 2004.

Mr. Chen Sui Yang (陳遂陽), aged 48, 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 26 years of experience in technology research of wireless communications. He joined the Group in 1998.

Mr. Bu Bin Long (卜斌龍), aged 49, 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 26 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Mr. Deng Shi Qun (鄧世群), aged 30, deputy general manager of the Group's wireless access business unit. Mr. Deng is responsible for the research & development and operations management of wireless access products. Mr. Deng graduated in 2007 from South China University of Technology and obtained a master's degree in circuits and systems. Mr. Deng has many years of technical research experience in the domain of wireless communication technology and computer networking technology. He joined the Group in 2005.

Mr. Augustin Ping Chang (張平), aged 49, 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 26 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. Lai Wen Qiang (賴文強), aged 34, 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

Ms. Li Yu Wen (李宇雯), aged 41, 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 19 years of experience in the market of communications, operation and project management. Ms. Li served in the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

Mr. Liu Yi Bo (劉義波), aged 43, 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 20 years of experience in engineering and project management. He joined the Group in 1997.

Mr. Brian Donohue, aged 47, vice president of Comba Telecom Systems International Limited, an indirect wholly-owned subsidiary of the Company. Mr Donohue is also business development & general manager of the Group's international branch in Europe. Mr. Donohue is responsible for business development and operations throughout Europe, Russia and CIS countries. Mr. Donohue has over 26 years of experience in the telecommunications industry with more than 16 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.

Ms. Ma Jing (馬靜), aged 29, director of product marketing of the Group's international markets. Ms. Ma is responsible for overseeing the strategies and development of the product marketing. She graduated from Tsinghua University (清華大學) and obtained a bachelor degree in Electrical Engineering & Automation in 2004 and a master degree in Information & Communications Engineering in 2007. Ms. Ma has wide experience in product & program management. She joined the Group in 2007.

Mr. Johan Patrik Westfalk, aged 40, managing director of the Group's international branch in Caribbean & Latin America with headquarters in São Paulo, Brazil. Mr. Westfalk is responsible for all operations throughout the Latin American countries, including Brazil, Mexicoas 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 16 years of experience in the telecommunication industry and over 12 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Mr. Di Ying Jie (邸英傑), aged 50, 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.

Ms. Wong Siu Fan (黃少芬), aged 40, 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 a bachelor of arts degree in accountancy from The Hong Kong Polytechnic University and a master of science degree in financial management from the University of London. Ms. Wong is a member of the Hong Kong Institute of Certified Public Accountants, an associate of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has over 17 years of experience in auditing, accounting and financial management in the international accounting firm and listed companies. She joined the Group in 2004.

Mr. Jiang Hong Ming (江洪明), aged 38, 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 15 years of experience in the management of human resources, corporate operation and management. He joined the Group in 2003.

Ms. Ip Choi Lin (葉彩蓮), aged 41, deputy human resources director of the group, group human resources. Ms. Ip is responsible for the overall human resources for the group's headquarters in Hong Kong; in charge of the overall human resources for the global businesses of the group's international operations and also for the R&D center in USA under the group's central research institute. 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 18 years of experience in the HR development and management. She joined the Group in 2010.

Mr. Zheng Xiao Ming (鄭小明), aged 42, 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 18 years of experience in formulating operation plans, materials management, production and product delivery. He joined the Group in 2001.

Mr. Rajiv Girotra, aged 39, managing director of the Group's international branch in India. Mr. 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 16 years of telecommunications equipment sales, operations and management experience.

Mr. Pan Shuan Long (潘栓龍), aged 48, 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 26 years of experience in technology research and development in the mobile communications sector. He joined the Group in 2002.

Mr. Li Jin Qing (李金擎), aged 42, 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 18 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.

Directors and Senior Management

Mr. Chen Liang (陳亮), aged 37, 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 14 years of experience in the technical research, product development and corporate management in the wireless communications area. He joined the Group in 1998.

Mr. Wang Hui (汪輝), aged 50, 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 28 years of experience in the technology and production management in mechanical and communications industries. He joined the Group in 2010.

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 Provisions") of the Code on Corporate Governance Practices (the "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 2011 to the date of this annual report, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. Since 1 October 2011, Mr. Fok Tung Ling, chairman of the Board has ceased to be the president of the Company. Mr. Zhang Yue Jun has been re-designated as the vice chairman, president and executive director of the Company. It enabled the Company to comply with the corporate governance of separating the roles of chairman and chief executive officer under the Corporate Governance Code. It would enhance corporate governance and further boost investors' confidence in the Group, which were in the best interests of the Company and the shareholders as a whole. Save as disclosed above, the Company has fully complied with the Code Provisions.

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 the required standard 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 11 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 10 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)*	10/10
Mr. Zhang Yue Jun *(Vice Chairman & President)*	10/10
Mr. Tong Chak Wai, Wilson	10/10
Mr. Wu Jiang Cheng	10/10
Mr. Yan Ji Ci	10/10
Mr. Zheng Guo Bao	10/10
Mr. Yeung Pui Sang, Simon	10/10
Mr. Zhang Yuan Jian (appointed on 10 February 2012)	N/A
Independent Non-executive Directors:	
Mr. Yao Yan	9/10
Mr. Lau Siu Ki, Kevin	10/10
Mr. Liu Cai	10/10

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. Lau Siu Ki, Kevin, Yao Yan and Liu Cai. Mr. Lau Siu Ki, Kevin is the chairman of the remuneration committee. Its primary duties are to recommend the Board on the remuneration policy for all Directors and senior management and to 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.

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

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

NOMINATION COMMITTEE

The nomination committee has been set up since 8 February 2012 and comprises three independent non-executive Directors, Messrs. Liu Cai, Yao Yan, Lau Siu Ki, Kevin. Mr. Liu Cai is the chairman of the nomination committee. The nomination committee has adopted terms of reference which are in line with the Corporate Governance Code. The committee is responsible for formulating nomination policy for the consideration of the Board and to implement the Board's approved nomination policy. During the nomination process, the nomination committee will consider 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 and make recommendation to the Board for consideration.

The nomination committee nominated Mr. Zhang Yuan Jian for an executive director, and that was approved by the Board with effect from 10 February 2012.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, Messrs. Lau Siu Ki, Kevin, Yao Yan 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. Lau Siu Ki, Kevin	2/2
Mr. Yao Yan	1/2
Mr. Liu Cai	2/2

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

The Group always endeavours to improve transparency and accountability to its shareholders in the best possible way. After reporting its interim and annual results, the Group holds press conferences and investor presentations 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 Group issues press releases and announcements where appropriate to provide updated information about the Group's business development in a timely manner. The Group 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 150 investor meetings, including participation in 4 investor conferences, and 15 post-results roadshows, 10 plant visits were arranged. This provided the investment community with an opportunity to understand the business of the Group better. As a result of various investor relations activities undertaken, as at the end of the Current Year, 28 securities companies provided research coverage on the Group.

Key Investor Relations Events in 2011:

Date		Event
January	:	2011 Pulse of Asia Conference (organized by DBS Vickers)
March	:	2010 annual results announcement (press conference and investor presentation)
April	:	Post-results roadshows in Hong Kong, Shenzhen, Beijing, Shanghai, Taiwan, Singapore, the U.S. and Europe (arranged by various brokerage firms)
May	:	2011 Annual General Meeting
	:	Hong Kong Investor Summit (organized by Morgan Stanley)
	:	SWS HK Conference 2011 (organized by Shenyin Wanguo)
June	:	Plant visit for investors, fund managers and analysts (arranged by First Shanghai)
August	:	2011 interim results announcement (press conference and investor presentation)
September	:	Analyst Tour — P&T/Expo Comm China 2011
	:	Post-results roadshows in Hong Kong, Shenzhen, Beijing, Shanghai, Taiwan, Singapore, the U.S. and Europe (arranged by various brokerage firms)
November	:	China Investor Conference (organized by Bank of America Merrill Lynch)
December	:	SWS Investment Forum (organized by Shenyin Wanguo)

The Group has been honored for its excellence in FinanceAsia's 11th annual Asia's Top Companies poll in April 2011. It was the second consecutive year for the Group to receive this honor, and for the first time the Group was rated as the No. 1 "Best Mid-Cap" company along with top ten rankings in four other categories including "Most Committed to a Strong Dividend Policy", "Best in Corporate Social Responsibility", "Best Corporate Governance", and "Best Managed Company" in FinanceAsia's poll.

In addition, the Group has been dedicated to developing innovative products in line with the ever-changing market and customer needs, and has offered unparalleled quality services to the customers over the years. During the Current Year, the Group was selected for inclusion in the "2011 Info Tech 100 China" ranking 33rd by Business Next in Taiwan and Ceocio China in Mainland China. These top 100 IT companies were selected according to five statistical indicators: turnover, turnover growth rate, return on shareholders' equity, yield rate and rate of return.

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 the appointment of Ernst & Young was 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$2,816,000 and HK$408,000, respectively. The auditors confirmed to the Board that they acknowledged their responsibilities of expressing an opinion on the annual financial statements for the Current Year.

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
21 March 2012

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 2011.

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 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 114.

The directors recommend the payment of a final dividend of HK7 cents per ordinary share (2010: HK8 cents per ordinary share) in respect of the year to shareholders on the register of members on 22 May 2012. Together with the interim dividend of HK5 cents per ordinary share paid on 19 September 2011 (2010: HK6 cents per ordinary share), the total dividends for the Current Year is HK12 cents (2010: HK18 cents per ordinary share). 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 115 to 116. 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, SHARE OPTIONS AND AWARDED SHARES

As a reward to the continual support of the shareholders, the Company has allotted and issued 135,837,495 new ordinary shares by way of bonus issue to the existing shareholders on 31 May 2011.

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") 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

On 21 July 2011, the Board of the Company resolved to budget a sum of HK$20 million (the "Budgeted Sum") for the purchase of shares of the Company from the market under the share award scheme which adopted on 25 March 2011 (the "Scheme"). The trustee of the Scheme (the "Trustee") applied approximately HK$7,690,000 out of the Budgeted Sum to purchase an aggregate of 1,062,500 shares at the prevailing market price on the Stock Exchange during the period from 21 July 2011 to 22 July 2011 in accordance with the terms of the Scheme. Save as disclosed herein, 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 2011, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$484,676,000 of which HK$106,834,000 has been proposed as a final dividend for the Current Year. In addition, the Company's share premium account, in the amount of HK$596,260,000, 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 86.2% of the total sales for the year and sales to the largest customer included therein accounted for approximately 56.4% 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)
Mr. Zhang Yue Jun ("Mr. Zhang") (Vice Chairman & President)
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. Kevin Lau")
Mr. Liu Cai ("Mr. Liu")

Subsequent to the end of the reporting period, on 10 February 2012, Mr Zhang Yuan Jian was appointed as executive director of the Company.

In accordance with article 86(3) of the Company's Articles, Mr. Zhang Yuan Jian will retire and being eligible and offer himself for re-election at the forthcoming annual general meeting (the "AGM") of the Company. In accordance with articles 87(1) and 87(2) of the Company's Articles, Mr. Tong, Mr. Zheng, Mr. Kevin Lau and Mr. Liu will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM. All the independent non-executive directors are appointed for a term of one year.

The Company has received annual confirmations of independence from Mr. Yao, Mr. Kevin Lau, and Mr. Liu 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 Mr. Fok, Mr. Zhang, Mr. Wu and Mr. Yan 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. Each of Mr. Tong and Mr. Zhang Yuan Jian has entered into a service contract with the Company for an initial term of three years which commenced on 1 December 2008 and 10 February 2012, respectively 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 AGM 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 2011, 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 (the "Model Code"), 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)	17,258,224	523,694,887	540,953,111	35.44
Mr. Zhang	(b)	–	153,828,452	153,828,452	10.08
Mr. Tong	(c)	4,238,560	–	4,238,560	0.28
Mr. Wu	(c)	9,451,987	–	9,451,987	0.62
Mr. Yan	(c)	7,974,435	–	7,974,435	0.52
Mr. Zheng	(c)	3,397,176	–	3,397,176	0.23
Mr. Yeung	(c)	7,028,912	–	7,028,912	0.46
		49,349,294	677,523,339	726,872,633	47.63

Long positions in share options of the Company:

Name of directors	No. of options directly beneficially owned
Mr. Yao	242,000
Mr. Kevin Lau	242,000
Mr. Liu Cai	242,000
	726,000

Notes:

(a) 522,409,701 shares and 1,285,186 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 523,694,887 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 153,828,452 shares owned by Wise Logic.

(c) On 12 April 2011, the Company granted 26,000,000 awarded shares ("Awarded Shares") to 365 selected persons ("Selected Person(s)") under the share award scheme which adopted on 25 March 2011, in which each of Mr. Tong and Mr. Wu was granted 600,000 Awarded Shares; each of Mr. Yan and Mr. Yeung was granted 520,000 Awarded Shares; and Mr. Zheng was granted 120,000 Awarded Shares. The Company appointed a trustee to hold the Awarded Shares in trust for the Selected Persons and such Awarded Shares shall be transferred to the Selected Persons upon the vesting conditions will have been met. Details of share award scheme are set out in note 30 to the financial statements.

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

Save as disclosed above, as at 31 December 2011, 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.

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. In addition, share options and awarded shares are also offered to directors.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the 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 and share award schemes 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 AND SHARE AWARD SCHEMES

Details of the share option and share award schemes are set out in note 30 to the financial statements.

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

At 31 December 2011, 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	522,409,701	34.23
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	540,953,111	35.44
Wise Logic		Beneficial owner	153,828,452	10.08
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	153,828,452	10.08

Notes:

(a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 540,953,111 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 153,828,452 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) 522,409,701 shares between Prime Choice and Mdm. Chen; and

(ii) 153,828,452 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2011, 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 transaction: Loan

On 25 August 2010, Cascade Technology Limited (a wholly-owned indirect subsidiary of the Company) (the "Lender") and WaveLab Holdings Limited ("WaveLab Holdings" or the "Borrower") entered into a loan agreement with effect from 1 January 2011 (the "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 "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 Loan in full or in part up to the outstanding amount of the 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 Loan is used for refinancing all outstanding indebtedness amounted to US$6,000,000 (equivalent to approximately HK$46,800,000) under the loan agreements dated 18 July 2007, 25 June 2008 and 1 August 2008. Unless otherwise agreed by the Lender, the Loan is used for the working capital purpose of the Borrower and its subsidiaries. As at 31 December 2011, all outstanding indebtedness under the Loan Agreement 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 Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Connected transaction: Awarded Shares

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the share award scheme adopted on 25 March 2011, in which 12 Selected Persons are connected persons (as defined in Chapter 14A of the Listing Rules) to the Company. Details of this connected transaction and the share award scheme are set out in note 30 to the financial statements.

Continuing connected transactions

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 (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 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 WTAP Agreement and WTAP-Components Agreement constitute non-exempt continuing connected transactions falling under Rule 14A.35 of the Listing Rules.

The Independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the terms of the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

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.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 40 to the financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
21 March 2012

Independent Auditors' Report

Ernst & Young
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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 42 to 114, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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 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 about 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.

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 2011, 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
21 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**6,354,218**	5,191,358
Cost of sales		**(4,027,521)**	(3,251,658)
Gross profit		**2,326,697**	1,939,700
Other income and gains	5	**110,269**	44,499
Research and development costs		**(361,914)**	(210,912)
Selling and distribution costs		**(437,088)**	(265,622)
Administrative expenses		**(830,714)**	(627,514)
Other expenses		**(1,331)**	(2,631)
Finance costs	7	**(29,403)**	(20,790)
PROFIT BEFORE TAX	6	**776,516**	856,730
Income tax expense	9	**(121,772)**	(119,540)
PROFIT FOR THE YEAR		**654,744**	737,190
Attributable to:			
Owners of the parent		**659,084**	724,326
Non-controlling interests		**(4,340)**	12,864
		654,744	737,190
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	12		
Basic		**43.99**	50.43
			(restated)
Diluted		**42.95**	48.55
			(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 2011

	Notes	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR		**654,744**	737,190
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation	13	**27,646**	15,516
Income tax effect	16	**(4,004)**	(2,348)
		23,642	13,168
Cash flow hedge:			
Effective portion of changes in fair value of hedging instrument arising during the year	26	**2,275**	(2,973)
Reclassification adjustments included in the consolidated income statement	26	**344**	758
Income tax effect	26	**(250)**	366
	26	**2,369**	(1,849)
Exchange differences on translation of foreign operations		**139,075**	114,502
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**165,086**	125,821
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**819,830**	863,011
Attributable to:			
Owners of the parent		**821,286**	848,185
Non-controlling interests		**(1,456)**	14,826
		819,830	863,011

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**828,546**	537,488
Prepaid land lease payments	14	**31,374**	14,175
Goodwill	15	**28,571**	28,571
Long-term trade receivables	20	**118,648**	–
Deferred tax assets	16	**136,309**	131,219
Intangible assets	17	**28,216**	9,142
Restricted bank deposits	23	**7,033**	10,249
Total non-current assets		**1,178,697**	730,844
CURRENT ASSETS			
Inventories	19	**2,421,044**	1,731,457
Trade receivables	20	**4,268,084**	2,895,568
Notes receivable	21	**68,472**	49,035
Prepayments, deposits and other receivables	22	**450,810**	372,184
Restricted bank deposits	23	**79,813**	10,439
Cash and cash equivalents	23	**1,114,412**	1,472,899
Total current assets		**8,402,635**	6,531,582
CURRENT LIABILITIES			
Trade and bills payables	24	**2,981,163**	2,155,090
Other payables and accruals	25	**1,186,559**	947,419
Derivative financial instrument	26	**698**	2,973
Interest-bearing bank borrowings	27	**719,272**	118,563
Tax payable		**119,001**	189,495
Provisions for product warranties	28	**69,232**	57,038
Total current liabilities		**5,075,925**	3,470,578
NET CURRENT ASSETS		**3,326,710**	3,061,004
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,505,407**	3,791,848

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**404,743**	474,252
Deferred tax liabilities	16	**17,840**	8,571
Total non-current liabilities		**422,583**	482,823
Net assets		**4,082,824**	3,309,025
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**152,620**	132,305
Treasury shares	29	**(9,661)**	–
Reserves	31(a)	**3,764,271**	2,948,453
Proposed dividends	11	**106,834**	158,766
		4,014,064	3,239,524
Non-controlling interests		**68,760**	69,501
Total equity		**4,082,824**	3,309,025

Fok Tung Ling	**Tong Chak Wai, Wilson**
Director	*Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Attributable to owners of the parent													
		Issued capital	Treasury shares	Share premium account	Share-based compensation reserve	Capital reserve	Asset revaluation reserve	Hedging reserve	Statutory reserve	Exchange fluctuation reserve	Retained profits	Proposed final and special dividends	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'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
Share option scheme															
– exercise of share options	29	3,067	–	49,475	(11,801)	–	–	–	–	–	–	–	40,741	–	40,741
– value of services	6	–	–	–	14,301	–	–	–	–	–	–	–	14,301	–	14,301
– share options cancelled at expiry date		–	–	–	(59)	–	–	–	–	–	59	–	–	–	–
Issue of bonus shares	29	22,691	–	(22,691)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share expenses		–	–	–	–	874	–	–	–	–	–	–	874	715	1,589
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(2,813)	(2,813)
Final 2009 dividend declared		–	–	–	–	–	–	–	–	–	–	(129,154)	(129,154)	–	(129,154)
Under-provision of final 2009 dividend		–	–	–	–	–	–	–	–	–	(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

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Attributable to owners of the parent													
		Issued capital HK$'000	Treasury shares HK$'000	Share premium account HK$'000	Share-based compensation reserve HK$'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 2011		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
Profit for the year		–	–	–	–	–	–	–	–	–	659,084	–	659,084	(4,340)	654,744
Other comprehensive income for the year:															
Gains on property revaluation, net of tax		–	–	–	–	–	23,642	–	–	–	–	–	23,642	–	23,642
Cash flow hedging, net of tax		–	–	–	–	–	–	2,369	–	–	–	–	2,369	–	2,369
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	136,191	–	–	136,191	2,884	139,075
Total comprehensive income for the year		–	–	–	–	–	23,642	2,369	–	136,191	659,084	–	821,286	(1,456)	819,830
Share option scheme															
– exercise of share options	29(a)	4,131	–	45,090	(11,211)	–	–	–	–	–	–	–	38,010	–	38,010
– value of services	6	–	–	–	15,790	–	–	–	–	–	–	–	15,790	–	15,790
– adjustment arising from lapse of share options		–	–	–	(205)	–	–	–	–	–	205	–	–	–	–
– share options cancelled at expiry date		–	–	–	(7)	–	–	–	–	–	7	–	–	–	–
Share award scheme															
– value of services	6	–	–	–	145,028	–	–	–	–	–	–	–	145,028	–	145,028
– shares allotted	29(b)	2,600	(2,600)	–	–	–	–	–	–	–	–	–	–	–	–
– shares purchased	29(c)	–	(7,694)	–	–	–	–	–	–	–	–	–	(7,694)	–	(7,694)
– vested awarded shares transferred to selected persons	29(d)	–	860	82,074	(82,934)	–	–	–	–	–	–	–	–	–	–
Issue of bonus shares	29(e)	13,584	(227)	(13,357)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share expenses		–	–	–	–	874	–	–	–	–	–	–	874	715	1,589
Final 2010 dividend declared		–	–	–	–	–	–	–	–	–	–	(163,005)	(163,005)	–	(163,005)
Under-provision of final 2010 dividend		–	–	–	–	–	–	–	–	–	(4,239)	4,239	–	–	–
Interim 2011 dividend	11	–	–	–	–	–	–	–	–	–	(75,743)	–	(75,743)	–	(75,743)
Proposed final 2011 dividend	11	–	–	–	–	–	–	–	–	–	(106,834)	106,834	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	–	–	894	–	(894)	–	–	–	–
Staff welfare fund		–	–	–	–	–	–	–	–	–	(6)	–	(6)	–	(6)
At 31 December 2011		152,620	(9,661)	596,260*	87,847*	45,504*	74,199*	520*	91,420*	533,943*	2,334,578*	106,834	4,014,064	68,760	4,082,824

* These reserve accounts comprise the consolidated reserves of HK$3,764,271,000 (2010:HK$2,948,453,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**776,516**	856,730
Adjustments for:			
Interest income	5	**(9,364)**	(5,690)
Finance costs	7	**29,403**	20,790
Depreciation	6	**98,402**	77,460
Recognition of prepaid land lease payments	6	**563**	358
Amortisation of intangible assets	6	**5,109**	2,236
Equity-settled share option expense	6	**15,790**	14,301
Equity-settled share expense		**1,589**	1,589
Gain on bargain purchase	5	**(48,426)**	–
Loss on disposal of items of property, plant and equipment	6	**844**	1,964
Awarded share expense	6	**145,028**	–
		1,015,454	969,738
Increase in inventories		**(556,380)**	(64,264)
Increase in trade receivables		**(1,165,869)**	(697,265)
Increase in long-term trade receivables		**(118,648)**	–
Increase in notes receivable		**(17,045)**	(12,818)
Increase in prepayments, deposits and other receivables		**(60,076)**	(156,285)
Increase in trade and bills payables		**622,490**	306,785
Increase in other payables and accruals		**192,917**	209,921
Increase in provisions for product warranties		**9,186**	15,697
Cash generated (used in)/from operations		**(77,971)**	571,509
PRC profits tax paid		**(197,371)**	(92,899)
Overseas profits taxes paid		**(3,328)**	(7,643)
Net cash flows (used in)/from operating activities		**(278,670)**	470,967
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**9,364**	5,690
Purchases of items of property, plant and equipment	13	**(284,379)**	(154,986)
Acquisition of intangible assets	17	**(4,662)**	(3,001)
Acquisition of subsidiaries	32	**(77,549)**	–
Proceeds from disposal of items of property, plant and equipment		**21,004**	919
Increase in restricted bank deposits		**(54,557)**	(3,564)
Net cash flows used in investing activities		**(390,779)**	(154,942)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Net cash flows used in investing activities		**(390,779)**	(154,942)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29(a)	**38,010**	40,741
New bank borrowings		**1,476,518**	583,381
Repayment of bank borrowings		**(987,448)**	(447,618)
Amount paid for shares purchases for share award scheme	29(c)	**(7,694)**	–
Interest paid		**(29,059)**	(20,032)
Dividends paid		**(238,748)**	(203,536)
Net cash flows from/(used in)financing activities		**251,579**	(47,064)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(417,870)**	268,961
Cash and cash equivalents at beginning of year		**1,472,899**	1,145,957
Effect of foreign exchange rate changes, net		**59,383**	57,981
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,114,412**	1,472,899
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**1,114,412**	1,472,899
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,114,412**	1,472,899
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,114,412**	1,472,899

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**548,375**	399,058
Loan to a subsidiary		**–**	13,250
Total non-current assets		**548,375**	412,308
CURRENT ASSETS			
Due from subsidiaries	18	**1,038,200**	833,200
Other receivables	22	**5,454**	–
Cash and cash equivalents	23	**306**	1,519
Total current assets		**1,043,960**	834,719
CURRENT LIABILITIES			
Due to a subsidiary	18	**176,320**	–
Other payables and accruals	25	**75,539**	48,093
Total current liabilities		**251,859**	48,093
NET CURRENT ASSETS		**792,101**	786,626
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,340,476**	1,198,934
NON-CURRENT LIABILITIES			
Financial guarantee contracts	33	**27,972**	23,883
Net assets		**1,312,504**	1,175,051
EQUITY			
Issued capital	29	**152,620**	132,305
Treasury shares	29	**(9,661)**	–
Reserves	31(b)	**1,062,711**	883,980
Proposed final dividend	11	**106,834**	158,766
Total equity		**1,312,504**	1,175,051

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 is located at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings and a 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. 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, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is 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 recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	Extinguishing *Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

- HKAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment 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.

2.3 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 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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 amortised 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.

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

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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

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

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

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 that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 recognised 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 will be recognised 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net 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, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 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 recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 depreciates them accordingly.

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. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rate used for this purpose is 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 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 recognised 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 recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each 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 amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the 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.

Computer software and technology

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

Computer software and technology	3 to 10 years

Golf club membership

Golf club membership with an indefinite useful live is tested for impairment annually. Such intangible asset is not amortized. The useful life is reviewed at the end of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under 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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by 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 amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

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; or

- 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised 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, recognised 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 through the use of an allowance account and the amount of the loss is recognised 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 and all collateral has been realised or has been transferred to the Group.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as 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 recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, a derivative financial instrument and interest-bearing bank borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent 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 amortised 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 recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Company 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 recognised 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 Company 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 recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

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 a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swap, to hedge its interest rate risk. Such derivative financial instrument is initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivative is carried as liability when the fair value is negative.

Any gain or loss arising from changes in fair value of derivative are taken directly to the income statement, except for the effective portion of cash flow hedge, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedge is classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised liability.

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 hedge is expected to be highly effective in achieving offsetting changes in cash flows and is assessed on an ongoing basis to determine that it actually has been highly effective throughout the financial reporting periods for which it was designated.

Hedge which meets the strict criteria for hedge accounting is accounted for as follows:

Cash flow hedge

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

Amounts recognised 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 recognised.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is 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 recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out 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.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the 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 recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or 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, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when 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 recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at 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 recognised 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 recognised 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 recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the sale of goods and rendering of services, 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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme and a share award 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 cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised 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 recognised as at the beginning and end of that period.

No expense is recognised 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 recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised 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 recognised for the award is recognised 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.

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

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 operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is 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 or production 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 or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs 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 recognised as a liability.

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

Foreign currencies

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 arising on settlement or translation of monetary items are taken to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss are recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The resulting exchange differences are recognised 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 recognised 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 rate.

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 and which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of a deferred tax liability for withholding taxes

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors in respect of its earning, from 2008 or thereafter, shall be subject to withholding tax at an applicable rate of 5% or 10%. The directors had carefully evaluated the necessity of dividend distribution of its PRC subsidiaries out of their profits earned after 1 January 2008. For details, please refer to note 16 to the financial statements.

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 described below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment allowances for trade and other receivables

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

Impairment of property, plant, and equipment

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was approximately HK$28,571,000 (2010: HK$28,571,000). For details, please refer to note 15 to the financial statements.

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.

Information about major customers

Revenue from continuing operations of approximately HK$3,582,584,000 (2010: HK$2,696,890,000) and HK$1,333,343,000 (2010: HK$1,250,247,000) were derived from two customers, which accounted for 56.4% (2010: 52.0%) and 21.0% (2010: 24.1%) of the total revenue of the Group respectively.

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:

	2011 HK$'000	2010 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**6,108,832**	5,028,114
Maintenance services	**245,386**	163,244
	6,354,218	5,191,358
Other income and gains		
Bank interest income	**9,364**	5,690
Exchange gain, net	**9,776**	4,620
Government subsidy	**7,741**	18,464
VAT refunds*	**25,411**	9,918
Gain on bargain purchase (note 32)	**48,426**	–
Others	**9,551**	5,807
	110,269	44,499

* During the years ended 31 December 2011 and 2010, Comba Software Technology (Guangzhou) Limited ("Comba Software") being a designated 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	2011 HK$'000	2010 HK$'000
Cost of inventories sold and services provided		**3,925,108**	3,169,126
Depreciation	13	**98,402**	77,460
Recognition of prepaid land lease payments	14	**563**	358
Amortisation of intangible assets	17	**5,109**	2,236
Minimum lease payments under operating leases in respect of land and buildings		**90,495**	67,376
Auditors' remuneration		**2,816**	2,776
Employee benefit expense (including directors' emoluments note 8):			
Salaries and wages		**842,693**	741,220
Staff welfare expenses		**72,600**	56,339
Equity-settled share option expenses	30(a)	**15,790**	14,301
Awarded share expense		**145,028**	–
Pension scheme contributions#		**73,025**	48,228
		1,149,136	860,088
Exchange gain, net		**(9,776)**	(4,620)
Write-off of inventories		**–**	10,341
Write-down of inventories to net realisable value		**27,254**	–
Provisions for product warranties	28	**45,401**	45,402
Loss on disposal of items of property, plant and equipment		**844**	1,964
Gain on bargain purchase*	32	**48,426**	–
Bank interest income		**(9,364)**	(5,690)

At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

* Gain on bargain purchase is included in "Other income and gains" in the consolidated income statement.

7. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on bank loans wholly repayable within five years	**29,403**	19,531
Interest on added confirmation of documentary credits	**–**	1,259
	29,403	20,790

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:

	2011 HK$'000	2010 HK$'000
Fees	**600**	600
Other emoluments:		
Salaries, allowances and benefits in kind	**13,461**	12,990
Performance related bonuses*	**8,447**	9,192
Equity-settled share option expense	**321**	1,285
Awarded share expense	**11,927**	–
Pension scheme contributions	**277**	255
	34,433	23,722
	35,033	24,322

* 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, certain directors were granted awarded shares, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such awarded shares 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 non-executive directors

2011	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Award share expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:							
Mr. Fok Tung Ling	–	2,343	2,450	–	–	12	4,805
Mr. Zhang Yue Jun	–	2,198	2,455	–	–	59	4,712
Mr. Tong Chak Wai, Wilson	–	2,012	139	–	3,032	12	5,195
Mr. Wu Jiang Cheng	–	1,729	1,455	–	3,032	59	6,275
Mr. Yan Ji Ci	–	1,456	1,338	–	2,628	59	5,481
Mr. Zheng Guo Bao	100	1,681	467	–	607	64	2,919
Mr. Yeung Pui Sang, Simon	–	2,042	143	–	2,628	12	4,825
	100	13,461	8,447	–	11,927	277	34,212
Non-executive directors:							
Mr. Yao Yan	150	–	–	107	–	–	257
Mr. Lau Siu Ki, Kevin	150	–	–	107	–	–	257
Mr. Liu Cai	200	–	–	107	–	–	307
	500	–	–	321	–	–	821
	600	13,461	8,447	321	11,927	277	35,033

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

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

2010	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Award share 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
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

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

(b) Five highest paid employees

The five highest paid employees during the year included five (2010: 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 (2010: 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.

	2011 HK$'000	2010 HK$'000
Current year provision:		
Mainland China	**118,890**	116,089
Overseas	**2,070**	8,112
Deferred tax	**812**	(4,661)
Total tax charge for the year	**121,772**	119,540

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and has become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an adjustment of income tax rate to 25%.

Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou") and Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), being manufacturing foreign invested enterprises 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 the Guangdong Science and Technology Department on 14 December 2009 and 16 December 2008 respectively. The qualification of Comba Technology being designated as a High-New Technology Enterprise was renewed on 23 August 2011. Being High-New Technology Enterprises, Comba Guangzhou and Comba Technology are entitled to the preferential tax rate of 15% for the year of 2011.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Systems (China) Limited ("Comba China"), another subsidiary of the Company established in the PRC, was entitled to an exemption from PRC corporate income tax for the two years commencing from 1 January 2008 to 31 December 2009 and thereafter was entitled to a 50% reduction in PRC corporate income tax for the subsequent three years from 1 January 2010 to 31 December 2012. Moreover, as Comba China is located in the Guangzhou Economic and Technology Development Zone, it is entitled to transitional income tax rates from 2008 to 2012. Therefore, the applicable income tax rates for Comba China in 2008, 2009, 2010, 2011 and 2012 are 0%, 0%, 11%, 12% and 12.5%, respectively.

9. INCOME TAX (continued)

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

	2011		2010	
	HK$'000	%	HK$'000	%
Profit before tax	**776,516**		856,730	
Tax at the applicable tax rate	**194,129**	**25.00**	214,183	25.00
Lower tax rates for specific provinces or enacted by local authority	**(69,192)**	**(8.91)**	(88,371)	(10.31)
Effect on opening deferred tax of increase in rate	**(16,173)**	**(2.08)**	(130)	(0.02)
Income not subject to tax	**(12,107)**	**(1.56)**	–	–
Expenses not deductible for tax	**35,730**	**4.60**	15,102	1.76
Additional deductible research and development expenses	**(19,547)**	**(2.52)**	(13,332)	(1.56)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**–**	**–**	1,275	0.15
Tax losses utilised	**(15,035)**	**(1.94)**	(32,747)	(3.82)
Tax losses not recognised	**23,967**	**3.09**	23,560	2.75
Tax charge at the Group's effective rate	**121,772**	**15.68**	119,540	13.95

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$118,683,000 (2010: HK$116,142,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2011.

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

Effective deferred tax rate in 2011 was 15% (2010: 15%).

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of HK$185,067,000 (2010: HK$233,906,000) which has been dealt with in the financial statements of the Company (note 31(b)).

11. DIVIDENDS

	2011 HK$'000	2010 HK$'000
Interim — HK5 cents (2010: HK6 cents) per ordinary share	**75,743**	71,569
Proposed final — HK7 cents (2010: HK8 cents) per ordinary share	**106,834**	105,844
Proposed special — Nil (2010: HK4 cents) per ordinary share	**—**	52,922
	182,577	230,335

The proposed final dividend was declared by a board resolution on 21 March 2012.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and if approved, will be paid on 30 May 2012.

No deduction or withholding tax will be imposed on the payments 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 1,498,279,000 (2010 (restated):1,436,356,000) 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 potential dilutive ordinary shares arising from share options and awarded shares granted by the Company into ordinary shares.

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

	2011 HK$'000	2010 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**659,084**	724,326

	Number of shares	
	2011	2010 (restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,498,279,000**	1,436,356,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**20,117,000**	55,672,000
Awarded shares	**16,262,000**	—
	1,534,658,000	1,492,028,000

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 2011						
At 31 December 2010 and at 1 January 2011:						
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
At 1 January 2011, net of accumulated depreciation	240,496	187,877	64,557	20,410	24,148	537,488
Additions	–	149,066	39,299	5,785	90,229	284,379
Acquisition of subsidiaries (note 32)	65,633	12,565	2,059	469	–	80,726
Surplus on revaluation	27,646	–	–	–	–	27,646
Disposals	–	(18,433)	(2,674)	(741)	–	(21,848)
Depreciation provided during the year	(12,091)	(59,873)	(21,256)	(5,182)	–	(98,402)
Transfer	18,457	–	–	–	(18,457)	–
Exchange realignment	8,368	6,431	1,839	741	1,178	18,557
At 31 December 2011, net of accumulated depreciation	348,509	277,633	83,824	21,482	97,098	828,546
At 31 December 2011:						
Cost or valuation	351,336	561,425	181,516	39,456	97,098	1,230,831
Accumulated depreciation	(2,827)	(283,792)	(97,692)	(17,974)	–	(402,285)
Net carrying amount	348,509	277,633	83,824	21,482	97,098	828,546
Analysis of cost or valuation:						
At cost	6,324	561,425	181,516	39,456	97,098	885,819
At valuation	345,012	–	–	–	–	345,012
	351,336	561,425	181,516	39,456	97,098	1,230,831

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 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

The aggregate open market value of the leasehold land and buildings was HK$345,012,000 based on their existing use. The respective properties were revalued individually at the end of the reporting period by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer. A revaluation surplus of HK$27,646,000, resulting from the above valuations, has been credited to other comprehensive income.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Group	2011 HK$'000	2010 HK$'000
At valuation:		
Long-term leases	**16,287**	14,400
Medium-term leases	**328,725**	222,262
	345,012	236,662
At cost:		
Medium-term leases	**6,324**	6,029
	351,336	242,691

14. PREPAID LAND LEASE PAYMENTS

Group	2011 HK$'000	2010 HK$'000
Carrying amount at 1 January	**14,533**	14,376
Acquisition of subsidiaries (note 32)	**17,225**	–
Recognised during the year	**(563)**	(358)
Exchange realignment	**929**	515
Carrying amount at 31 December	**32,124**	14,533
Current portion included in prepayments, deposits and other receivables	**(750)**	(358)
Non-current portion	**31,374**	14,175

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

15. GOODWILL

Group	2011 HK$'000	2010 HK$'000
Cost and net carrying amount at 1 January	**28,571**	28,571
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 equipment cash-generating units for impairment testing.

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least five-year period approved by management. The discount rate applied to the cash flow projections is approximately 15%.

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

16. DEFERRED TAX

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

Deferred tax assets

Group	Unrealised profit HK$'000	Accruals HK$'000	Products warranty HK$'000	Cash flow hedge HK$'000	Total HK$'000
At 1 January 2010	121,773	–	–	–	121,773
Deferred tax (charged)/ credited to the income statement during the year	(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**
Deferred tax (charged)/credited to the income statement during the year	**(15,972)**	**7,827**	**7,253**	**–**	**(892)**
Deferred tax charged to equity during the year	**–**	**–**	**–**	**(250)**	**(250)**
Exchange realignment	**4,167**	**1,506**	**559**	**–**	**6,232**
At 31 December 2011	**84,318**	**36,261**	**15,614**	**116**	**136,309**

16. DEFERRED TAX (continued)

Deferred tax liabilities

Group	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2010	6,007	–	6,007
Deferred tax charged to equity during the year	2,348	–	2,348
Exchange realignment	216	–	216
At 31 December 2010	**8,571**	**–**	**8,571**
Deferred tax charged to equity during the year	**4,004**	**–**	**4,004**
Acquisition of subsidiaries (note 32)	**–**	**4,926**	**4,926**
Deferred tax credited to the income statement during the year	**–**	**(80)**	**(80)**
Exchange realignment	**419**	**–**	**419**
At 31 December 2011	**12,994**	**4,846**	**17,840**

At 31 December 2011, no deferred tax has been recognised for withholding tax that would be payable on the unremitted earnings from the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future.

17. INTANGIBLE ASSETS

Group	Computer software and technology HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2011			
Cost at 1 January 2011, net of accumulated amortisation	**8,028**	**1,114**	**9,142**
Additions	**4,662**	**–**	**4,662**
Acquisition of subsidiaries (note 32)	**18,820**	**–**	**18,820**
Amortisation provided during the year	**(5,109)**	**–**	**(5,109)**
Exchange realignment	**701**	**–**	**701**
At 31 December 2011	**27,102**	**1,114**	**28,216**
At 31 December 2011:			
Cost	**57,151**	**1,114**	**58,265**
Accumulated amortisation	**(30,049)**	**–**	**(30,049)**
Net carrying amount	**27,102**	**1,114**	**28,216**
31 December 2010			
Cost at 1 January 2010, net of accumulated amortisation	7,015	1,114	8,129
Additions	3,001	–	3,001
Amortisation 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 amortisation	(24,223)	–	(24,223)
Net carrying amount	8,028	1,114	9,142

18. INVESTMENTS IN SUBSIDIARIES

Company	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**375,375**	375,175
Capital contribution in respect of employee share-based compensation	**145,028**	–
Financial guarantees granted to subsidiaries (note 33)	**27,972**	23,883
	548,375	399,058

The amounts due from subsidiaries and the amount due to a subsidiary included in the Company's current assets and current liabilities of HK$1,038,200,000 (2010: HK$833,200,000) and HK$176,320,000 (2010: Nil), respectively, are unsecured, interest-free and are repayable on demand in one year.

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

18. INVESTMENTS IN SUBSIDIARIES (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 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
Comba Telecom Systems Engineering Limited 廣州京信通信系統工程有限公司*#	PRC/ Mainland China	RMB30,000,000	–	100	Sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
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

18. INVESTMENTS IN SUBSIDIARIES (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
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	US$400,000	–	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated	State of Virginia/ United States of America	US$500,000	–	55	Trading of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US$1	–	55	Investment holding
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

18. INVESTMENTS IN SUBSIDIARIES (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	Percentage of equity attributable to the Company Indirect	Principal activities
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG$1,000,002	–	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
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
PT. Comba Telecom	Indonesia	US$100,000	–	100	Provision of management consultancy services of telecommunications

18. INVESTMENTS IN SUBSIDIARIES (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 & Sistemas de México, S.A. de C.V.#	Mexico	MXN50,000	–	100	Production, sale, leasing and subleasing of wireless telecommunications network enhancement system equipment
Comba Telecom y Servicios de México, S.A. de C.V.#	Mexico	MXN50,000	–	100	Provision of general and engineering services
Comba Telecom, S.L.#	Spain	EUR100,000	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Technologies Sdn. Bhd.#	Malaysia	RM2	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services

Notes:

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

These subsidiaries were set up during the year.

19. INVENTORIES

Group	2011 HK$'000	2010 HK$'000
Raw materials	**210,640**	155,964
Project materials	**149,682**	118,884
Work in progress	**229,129**	148,052
Finished goods	**484,349**	305,413
Inventories on site	**1,347,244**	1,003,144
	2,421,044	1,731,457

20. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES

Group	2011 HK$'000	2010 HK$'000
Trade receivables	**4,404,188**	2,912,261
Impairment	**(17,456)**	(16,693)
	4,386,732	2,895,568
Current portion	**(4,268,084)**	(2,895,568)
Long-term portion	**118,648**	–

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

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

Group	2011 HK$'000	2010 HK$'000
Within 3 months	**2,334,378**	1,696,941
4 to 6 months	**424,407**	358,029
7 to 12 months	**728,759**	409,904
More than 1 year	**916,644**	447,387
	4,404,188	2,912,261
Provision for impairment	**(17,456)**	(16,693)
	4,386,732	2,895,568
Current portion	**(4,268,084)**	(2,895,568)
Long-term portion	**118,648**	–

20. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES (continued)

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

Group	2011 HK$'000	2010 HK$'000
At 1 January	**16,693**	16,152
Exchange realignment	**763**	541
	17,456	16,693

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.

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

Group	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	**4,133,158**	2,822,207
Less than 1 year past due	**109,822**	73,361
	4,242,980	2,895,568

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 2011 and 2010, none of the notes receivable were endorsed or discounted.

All notes receivable of the Group would be mature within six months.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**173,020**	133,667	**–**	–
Deposits	**72,822**	73,768	**–**	–
Other receivables	**204,968**	164,749	**5,454**	–
	450,810	372,184	**5,454**	–

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 was no recent history of default.

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,114,412**	1,472,899	**306**	1,519
Time deposits	**86,846**	20,688	**–**	–
	1,201,258	1,493,587	**306**	1,519
Less: Restricted bank deposits for performance bonds	**(86,846)**	(20,688)	**–**	–
Cash and cash equivalents	**1,114,412**	1,472,899	**306**	1,519

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,007,433,000 (2010: HK$1,405,296,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances 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	2011 HK$'000	2010 HK$'000
Within 3 months	**1,811,429**	1,243,947
4 to 6 months	**614,598**	445,204
7 to 12 months	**415,022**	374,671
More than 1 year	**140,114**	91,268
	2,981,163	2,155,090

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Accruals	**238,476**	241,597	**2,646**	2,399
Deposits received	**187,704**	218,453	**–**	–
Other payables	**760,379**	487,369	**72,893**	45,694
	1,186,559	947,419	**75,539**	48,093

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

26. DERIVATIVE FINANCIAL INSTRUMENT

Group	2011 Liabilities HK$'000	2010 Liabilities HK$'000
Interest rate swap	**698**	2,973

26. DERIVATIVE FINANCIAL INSTRUMENT (continued)

Interest rate swap – cash flow hedge

At 31 December 2011, the Group held interest rate swap contract designated as hedge in respect of expected interest payments for floating rate debts incurred by the Group.

Group	2011 HK$'000	2010 HK$'000
Total fair value (gain)/loss	**(2,275)**	2,973
Reclassification from other comprehensive income and recognised in the income statement	**(344)**	(758)
Deferred tax on fair value (gain)/loss	**250**	(366)
Net (gain)/loss on cash flow hedge	**(2,369)**	1,849

27. INTEREST-BEARING BANK BORROWINGS

Group	2011 HK$'000	2010 HK$'000
Analysed into:		
Within one year	**719,272**	118,563
In the second year	**404,743**	237,126
In the third year	**–**	237,126
	1,124,015	592,815

All the bank loans at 31 December 2011 and 31 December 2010 were unsecured. Loans denominated in Hong Kong dollars amounted to HK$314,530,000 (2010: Nil) and loans denominated in United States dollars amounted to HK$809,485,000 (2010: HK$592,815,000).

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 (the "Lenders"), 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, research and development initiatives, additional working capital, and refinancing the then 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). At the date of approval of these financial statements, such obligation has been complied with.

27. INTEREST-BEARING BANK BORROWINGS (continued)

At the end of the reporting period, the Group had fully utilized the Facility of US$130,000,000 (equivalent to HK$1,009,593,000) and repaid US$26,000,000 (equivalent to HK$201,919,000).

The bank loans bore interest at rates ranging from 1.07% to 3.33% (2010: from 1.15% to 3.61%) per annum.

28. PROVISIONS FOR PRODUCT WARRANTIES

Group	2011 HK$'000	2010 HK$'000
At 1 January	**57,038**	39,533
Additional provisions	**45,401**	45,402
Amounts utilised during the year	**(36,215)**	(29,705)
Exchange realignment	**3,008**	1,808
At 31 December	**69,232**	57,038

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	2011 HK$'000	2010 HK$'000
Authorised:		
5,000,000,000 (2010: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
1,526,196,229 (2010: 1,323,051,235) ordinary shares of HK$0.10 each	**152,620**	132,305

29. SHARE CAPITAL (continued)

During the years ended 31 December 2010 and 2011, the movements in the Company's issued capital were as follows:

	Number of shares in issue	Issued capital HK$'000	Treasury shares HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2010	1,065,475,095	106,547	–	455,669	562,216
Share option scheme					
– exercise of share options	30,666,625	3,067	–	49,475	52,542
Issue of bonus shares	226,909,515	22,691	–	(22,691)	–
At 31 December 2010 and 1 January 2011	**1,323,051,235**	**132,305**	**–**	**482,453**	**614,758**
Share option scheme					
– exercise of share options[a]	**41,307,499**	**4,131**	**–**	**45,090**	**49,221**
Share award scheme					
– shares allotted[b]	**26,000,000**	**2,600**	**(2,600)**	**–**	**–**
– shares purchased[c]	**–**	**–**	**(7,694)**	**–**	**(7,694)**
– vested awarded shares transferred to selected persons[d]	**–**	**–**	**860**	**82,074**	**82,934**
Issue of bonus shares[e]	**135,837,495**	**13,584**	**(227)**	**(13,357)**	**–**
At 31 December 2011	**1,526,196,229**	**152,620**	**(9,661)**	**596,260**	**739,219**

As at 31 December 2011, the total number of issued ordinary shares of the Company was 1,526,196,229 (2010: 1,323,051,235) which included 20,733,270 shares (2010: Nil) held under the share award scheme.

Notes:

(a) The subscription rights attaching to 41,307,499 share options were exercised at the adjusted exercise prices ranging from HK$0.434 to HK$6.570 per share, resulting in the issue of 41,307,499 shares of HK$0.10 each for a total cash consideration, before expenses of HK$38,010,000.

(b) Pursuant to the announcement dated 12 April 2011 and the subsequent extraordinary general meeting of the Company held on 23 May 2011, the Company allotted a total of 26,000,000 ordinary shares to the trustee for the purpose of granting awarded shares under the share award scheme.

(c) During the year ended 31 December 2011, the trustee of the share award scheme acquired 1,062,500 shares of the Company through purchases on the open market at a total cost (including related transaction costs) of approximately HK$7,694,000.

(d) During the year ended 31 December 2011, the trustee of the share award scheme transferred 8,596,030 ordinary shares of the Company to the selected persons upon vesting of the awarded shares.

(e) Pursuant to the annual general meeting held on 23 May 2011, a bonus issue of shares on the basis of one share for every ten shares held was approved. 135,837,495 bonus shares were issued under the bonus issue and the amount of HK$13,584,000 was capitalised from the Company's share premium account and treasury shares. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

29. SHARE CAPITAL (continued)

Share options and awarded shares

Details of the Company's share option and the share award schemes are included in note 30 to the financial statements.

30. SHARE OPTION AND SHARE AWARD SCHEMES

(a) 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 shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme, the share award scheme and any other incentive or share option schemes of the Company shall not exceed 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.

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.

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

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

	2011 Weighted average exercise price of share options* HK$ per share	2011 Number of share options '000	2010 Weighted average exercise price of share options** HK$ per share	2010 Number of share options '000
At 1 January	**3.48**	**78,333**	1.04	72,499
Granted during the year	**–**	**–**	7.23	33,000
Forfeited during the year	**6.57**	**(1,308)**	0.97	(346)
Exercised during the year	**0.89**	**(42,573)**	1.20	(33,826)
Expired during the year	**1.22**	**(52)**	1.96	(115)
At 31 December	**6.57**	**34,400**	3.83	71,212

* The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the bonus issue of shares approved on 23 May 2011 (the "Bonus Issue").

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

The weighted average closing price of the Company's shares at the dates of exercise of the share options was HK$7.56 (2010: HK$8.48 per share).

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

Movements in the number of Company's share options under the Scheme during the year are as follows:

	Number of share options									Exercise price of share options**
Name or category of participant	At 1 January 2011	Granted during the year	Adjusted during the year #	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2011	Date of grant of share options*	Exercise period of share options	HK$ per share
Executive Directors										
Mr. Tong Chak Wai, Wilson	**2,000,700**	–	125,070	(2,125,770)	–	–	**–**	21 Jul 08	21 Jul 09-20 Jul 11	1.341
	732,050	–	5,000	(737,050)	–	–	**–**	4 Nov 08	4 Nov 09-3 Nov 11	0.434
	2,732,750	–	130,070	(2,862,820)	–	–	**–**			
Mr. Wu Jiang Cheng	**1,903,330**	–	190,333	(2,093,663)	–	–	**–**	21 Jul 08	21 Jul 09-20 Jul 11	1.341
	2,434,520	–	243,452	(2,677,972)	–	–	**–**	4 Nov 08	4 Nov 09-3 Nov 11	0.434
	4,337,850	–	433,785	(4,771,635)	–	–	**–**			
Mr. Yan Ji Ci	**1,200,930**	–	120,093	(1,321,023)	–	–	**–**	21 Jul 08	21 Jul 09-20 Jul 11	1.341
	2,928,200	–	292,820	(3,221,020)	–	–	**–**	4 Nov 08	4 Nov 09-3 Nov 11	0.434
	4,129,130	–	412,913	(4,542,043)	–	–	**–**			
Mr. Zheng Guo Bao	**732,050**	–	73,205	(805,255)	–	–	**–**	21 Jul 08	21 Jul 09-20 Jul 11	1.341
Mr. Yeung Pui Sang, Simon	**2,196,150**	–	219,615	(2,415,765)	–	–	**–**	21 Jul 08	21 Jul 09-20 Jul 11	1.341
	1,903,330	–	190,333	(2,093,663)	–	–	**–**	4 Nov 08	4 Nov 09-3 Nov 11	0.434
	4,099,480	–	409,948	(4,509,428)	–	–	**–**			
Independent Non-executive Directors										
Mr. Yao Yan	**220,000**	–	22,000	–	–	–	**242,000**	22 Jul 10	22 Jul 11-21 Jul 13	6.570
Mr. Lau Siu Ki, Kevin	**220,000**	–	22,000	–	–	–	**242,000**	22 Jul 10	22 Jul 11-21 Jul 13	6.570
Mr. Liu Cai	**220,000**	–	22,000	–	–	–	**242,000**	22 Jul 10	22 Jul 11-21 Jul 13	6.570

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

Name or category of participant	Number of share options At 1 January 2011	Granted during the year	Adjusted during the year #	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2011	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Other employees In aggregate	**7,942,637**	–	295,954	(8,193,119)	(45,208)	(264)	**–**	21 Jul 08	21 Jul 09-20 Jul 11	1.341
	14,237,792	–	799,569	(15,030,199)	(6,710)	(452)	**–**	4 Nov 08	4 Nov 09-3 Nov 11	0.434
	32,340,000	–	3,234,000	(593,000)	–	(1,306,850)	**33,674,150**	22 Jul 10	22 Jul 11-21 Jul 13	6.570
	54,520,429	–	4,329,523	(23,816,318)	(51,918)	(1,307,566)	**33,674,150**			
	71,211,689	–	5,855,444	(41,307,499)	(51,918)	(1,307,566)	**34,400,150**			

* 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 Bonus Issue.

*** The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$7.54 per share.

The share options were adjusted as a result of the Bonus Issue. The total number of ordinary shares falling to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 58,555,121 options granted under the Scheme was adjusted from 58,555,121 ordinary shares of HK$0.1 each to 64,410,565 ordinary shares of HK$0.1 each.

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

31 December 2011 Number of share options '000	Exercise price of share options* HK$ per share	Exercise period
34,400	**6.570**	**22 July 2011 to 21 July 2013**

* The exercise price of the share options were adjusted as a result of the Bonus Issue.

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

31 December 2010 Number of share options '000	Exercise price of share options** HK$ per share	Exercise period
15,976	1.475	21 July 2009 to 20 July 2011
22,236	0.477	4 November 2009 to 3 November 2011
33,000	7.227	22 July 2011 to 21 July 2013
71,212		

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

The expense recognised in the consolidated income statement for employee services received during the year is approximately HK$15,790,000 (2010: HK$14,301,000).

Despite the option adjustments arising from the Bonus Issue, the 41,307,499 share options exercised during the current year resulted in the issue of 41,307,499 ordinary shares of the Company and new share capital of HK$4,131,000 and share premium of HK$45,090,000.

At the end of the reporting period, the Company had 34,400,150 share options, of which 17,000,350 share options were vested and 17,399,800 share options were unvested, 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 34,400,150 additional ordinary shares of the Company and additional share capital of HK$3,440,000 and share premium of HK$222,569,000 (before issue expenses).

Subsequent to the end of the reporting period, on 12 January 2012, a total of 40,000,000 share options were granted to individuals in respect of their services to the Group in the forthcoming year. The closing price of the Company's shares at the date of grant was HK$5.66 per share. These share options shall have a validity period of 3 years from 12 January 2012 to 11 January 2015, both dates inclusive. 50% of the share options shall be vested on the date falling the first anniversary of the date of grant and exercisable from 12 January 2013 to 11 January 2015. The remaining 50% of the share options shall be vested on the date falling the second anniversary of the date of grant and exercisable from 12 January 2014 to 11 January 2015.

At the date of approval of these financial statements, the Company had 73,843,150 share options outstanding under the Scheme, which represented approximately 4.8% of the Company's shares in issue as at that date.

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(b) Share Award Scheme

The Company adopted a share award scheme (the "Share Award Scheme") on 25 March 2011 (the "Adoption Date"). The purposes and objectives of the Share Award Scheme are to recognize the contributions by certain employees and persons to the Group (the "Selected Persons") and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Unless it is early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

Pursuant to the Share Award Scheme, (i) awarded shares (the "Awarded Shares") will be acquired by the trustee of the Company (the "Trustee") at the cost of the Company at the prevailing market price and be held in trust for the Selected Persons until the end of each vesting period; or (ii) new Awarded Shares may be allotted and issued to the Trustee under general mandates granted or to be granted by the Shareholders at general meetings from time to time and be held in trust for the Selected Persons until the end of each vesting period.

The Board shall not make any further award of the Awarded Shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company as at the Adoption Date. The maximum number of shares which may be awarded to a Selected Person under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date. The aforesaid limit may be refreshed or amended by approval of the shareholders in a general meeting. Nevertheless, the total number of the Awarded Shares which may be issued under the Share Award Scheme and the exercise of all options to be granted under other incentive and option schemes of the Company (including the Scheme) as so refreshed shall not exceed 10% of the shares in issue as at the date of approval of the limit. Awarded Shares or options previously granted under the Share Award Scheme or the Scheme (including those vested, outstanding, cancelled and lapsed) will not be counted for the purpose of calculating the limit as refreshed. The Company will not issue any Awarded Shares under the Share Award Scheme which would result in the total number of the Awarded Shares together with shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme or any other incentive or share option schemes of the Company representing in aggregate over 30% of the shares in issue as at the date of such grant.

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. Upon issue and allotment of the new Awarded Shares, the Trustee will hold the new Awarded Shares in trust for the Selected Persons and such new Awarded Shares shall be transferred to the Selected Persons upon the vesting conditions will have been met. The number of Awarded Shares granted to each of the Selected Persons is subject to their respective contributions to the Group. Among those 365 Selected Persons, there are 12 Selected Persons who are directors of members of the Group and accordingly connected persons (as defined in Chapter 14A of the Listing Rules) to the Company (the "Connected Selected Person(s)") and the issue and allotment of the 3,332,000 new Awarded Shares (the "Connected Awarded Shares") to the Connected Selected Persons under the Share Award Scheme were approved by the independent shareholders other than the Connected Selected Persons and their respective associates in accordance with the Listing Rules at the extraordinary general meeting of the Company held on 23 May 2011.

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(b) Share Award Scheme (continued)

Movements in the number of treasury shares held for the Share Award Scheme and Awarded Shares for the year ended 31 December 2011 are as follows:

	Notes	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2011		–	–
Purchased at the market	29(c)	1,062,500	–
Newly allotted under the Share Award Scheme	29(b)	26,000,000	–
Bonus issue of shares		2,266,800	–
Granted to the Selected Persons		(28,266,800)	28,266,800
Lapsed and returned to the Share Award Scheme		1,266,670	(1,266,670)
Vested to the Selected Persons	29(d)	–	(8,596,030)
At 31 December 2011		**2,329,170**	**18,404,100**

The 18,404,100 Awarded Shares outstanding as at 31 December 2011, have 3 remaining vesting dates, which are 12 April 2012, 12 April 2013 and 12 April 2014. Upon each vesting date, those Awarded Shares will be transferred at no cost to the Selected Persons.

The fair value of the Awarded Shares was based on the market value of the Company's shares at the grant date, i.e. HK$9.32 per share. The fair value of the Awarded Shares was adjusted to HK$8.473 per share as a result of the Bonus Issue.

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 from 46 to 47 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-based compensation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2009		455,669	373,108	18,945	762	3,938	852,422
Profit and total comprehensive income for the year	10	–	–	–	–	233,906	233,906
Share option scheme							
– exercise of share options	29	49,475	–	(11,801)	–	–	37,674
– value of services	30(a)	–	–	14,301	–	–	14,301
– share options cancelled at expiry date		–	–	(59)	–	59	–
Issue of bonus shares	29	(22,691)	–	–	–	–	(22,691)
Under-provision of final 2009 dividend		–	–	–	–	(1,297)	(1,297)
Interim 2010 dividend		–	–	–	–	(71,569)	(71,569)
Proposed final 2010 dividend		–	–	–	–	(158,766)	(158,766)
At 31 December 2010		**482,453**	**373,108**	**21,386**	**762**	**6,271**	**883,980**
Profit and total comprehensive income for the year	10	**–**	**–**	**–**	**–**	**185,067**	**185,067**
Share option scheme							
– exercise of share options	29	**45,090**	**–**	**(11,211)**	**–**	**–**	**33,879**
– value of services	30(a)	**–**	**–**	**15,790**	**–**	**–**	**15,790**
– adjustment arising from lapse of share options		**–**	**–**	**(205)**	**–**	**205**	**–**
– share options cancelled at expiry date		**–**	**–**	**(7)**	**–**	**7**	**–**
Share award scheme							
– value of services		**–**	**–**	**145,028**	**–**	**–**	**145,028**
– vested awarded shares transferred to Selected Persons	29	**82,074**	**–**	**(82,934)**	**–**	**–**	**(860)**
Issue of bonus shares	29	**(13,357)**	**–**	**–**	**–**	**–**	**(13,357)**
Under-provision of final 2010 dividend		**–**	**–**	**–**	**–**	**(4,239)**	**(4,239)**
Interim 2011 dividend		**–**	**–**	**–**	**–**	**(75,743)**	**(75,743)**
Proposed final 2011 dividend		**–**	**–**	**–**	**–**	**(106,834)**	**(106,834)**
At 31 December 2011		**596,260**	**373,108**	**87,847**	**762**	**4,734**	**1,062,711**

* 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. BUSINESS COMBINATION

On 20 June 2011, the Group entered into an agreement to acquire 100% interests in subsidiaries (the "Acquisition"), which are engaged in the research and development, manufacture and sales of telecommunications equipment. The Acquisition was made as part of the Group's strategy to expand its market share of telecommunications equipment. The purchase consideration of HK$84,259,000 for the Acquisition was in the form of cash.

	Notes	**Fair value recognised on acquisition HK$'000**
Property, plant and equipment	13	80,726
Prepaid land lease payments	14	17,225
Intangible assets	17	18,820
Inventories		48,731
Trade receivables and prepayments, deposits and other receivables		95,376
Restricted bank deposits		10,592
Cash and cash equivalents		6,710
Trade payables and other payables and accruals		(98,439)
Interest-bearing bank borrowings		(42,130)
Deferred tax liabilities	16	(4,926)
Total identifiable net assets at fair value		132,685
Gain on bargain purchase		(48,426)
Satisfied by cash		84,259

An analysis of the cash flows in respect of the Acquisition is as follows:

	HK$'000
Cash consideration	(84,259)
Cash and bank balances acquired	6,710
Net outflow of cash and cash equivalents included in cash flows from investing activities	(77,549)

33. CONTINGENT LIABILITIES

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in respect of performance bonds	**93,776**	39,225	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**1,701,285**	1,315,555
	93,776	39,225	**1,701,285**	1,315,555

As at 31 December 2011, 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$1,126,476,000 (2010: HK$592,816,000). The carrying amount of the financial guarantee contracts recognised in the Company's statement of financial position in accordance with HKAS 39 and HKFRS 4 was HK$27,972,000 (2010: HK$23,883,000). The financial guarantee contracts were eliminated on consolidation.

34. 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 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**55,660**	38,293	**–**	–
In the second to fifth years, inclusive	**51,129**	50,941	**–**	–
After five years	**5,865**	6,501	**–**	–
	112,654	95,735	**–**	–

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group and the Company had the following capital commitments for the procurement of production and office facilities at the end of the reporting period:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted, but not provided for:				
Buildings	**43,040**	51,107	**–**	–
Plant and machinery	**–**	5,277	**–**	–
Furniture and fixture	**649**	428	**–**	–
Intangible assets	**–**	226	**–**	–
	43,689	57,038	**–**	–

36. RELATED PARTY TRANSACTIONS

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

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

	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	**22,508**	22,782
Pension scheme contributions	**277**	255
Equity-settled share option expense	**321**	1,285
Awarded share expense	**11,927**	–
Total compensation paid to key management personnel	**35,033**	24,322

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

37. 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	2011 Loans and receivables HK$'000	2010 Loans and receivables HK$'000
Trade receivables	**4,268,084**	2,895,568
Long-term trade receivables	**118,648**	–
Notes receivable	**68,472**	49,035
Financial assets included in prepayments, deposits and other receivables (note 22)	**277,790**	238,517
Restricted bank deposits	**86,846**	20,688
Cash and cash equivalents	**1,114,412**	1,472,899
	5,934,252	4,676,707

Group Financial liabilities	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Trade and bills payables	**2,981,163**	2,155,090
Financial liabilities included in other payables and accruals (note 25)	**760,379**	487,369
Derivative financial instruments	**698**	2,973
Interest-bearing bank borrowings	**1,124,015**	592,815
	4,866,255	3,238,247

Company Financial assets	2011 Loans and receivables HK$'000	2010 Loans and receivables HK$'000
Loan to a subsidiary	**–**	13,250
Due from subsidiaries	**1,038,200**	833,200
Other receivables	**5,454**	–
Cash and cash equivalents	**306**	1,519
	1,043,960	847,969

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company Financial liabilities	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Due to a subsidiary	**176,320**	–
Financial liabilities included in other payables and accruals (note 25)	**72,893**	45,694
Financial guarantee contracts	**27,972**	23,883
	277,185	69,577

38. 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:

The fair values of cash and cash equivalents, restricted bank deposits, trade receivables, notes receivable, trade and bills 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 long-term trade receivables and 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 entered into an interest rate swap transaction with an international bank. The derivative financial instrument, an interest rate swap, is measured using valuation techniques similar to a 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 values 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 2011, 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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, 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 obligation with floating rates.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2011			
United States dollars	**50**	**(2,024)**	**–**
United States dollars	**(50)**	**2,024**	**–**
2010			
United States dollars	50	(2,138)	–
United States dollars	(50)	2,138	–

* Excluding retained profits

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 6.8% (2010: 4.7%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sales, whilst almost 90.3% (2010: 89.7%) of costs are denominated in the units' functional currency.

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
2011			
If Hong Kong dollar weakens against US$	**5**	**(34,531)**	**–**
If Hong Kong dollar strengthens against US$	**(5)**	**34,531**	**–**
2010			
If Hong Kong dollar weakens against US$	5	(27,833)	–
If Hong Kong dollar strengthens against US$	(5)	27,833	–

* Excluding retained profits

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. 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 28% (2010: 30%) and 83% (2010: 85%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 interest-bearing bank 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, is as follows:

	2011		
	Within 1 year	**1 to 5 years**	**Total**
Group	**HK$'000**	**HK$'000**	**HK$'000**
Interest-bearing bank borrowings	**719,272**	**404,743**	**1,124,015**
Trade and bills payables	**2,981,163**	**–**	**2,981,163**
Other payables	**760,379**	**–**	**760,379**
	4,460,814	**404,743**	**4,865,557**

	2010		
	Within 1 year	1 to 5 years	Total
Group	HK$'000	HK$'000	HK$'000
Interest-bearing bank borrowings	118,563	474,252	592,815
Trade and bills payables	2,155,090	–	2,155,090
Other payables	487,369	–	487,369
	2,761,022	474,252	3,235,274

	2011		
	Within 1 year	**1 to 5 years**	**Total**
Company	**HK$'000**	**HK$'000**	**HK$'000**
Due to a subsidiary	**176,320**	**–**	**176,320**
Other payables	**72,893**	**–**	**72,893**
	249,213	**–**	**249,213**

	2010		
	Within 1 year	1 to 5 years	Total
Company	HK$'000	HK$'000	HK$'000
Other payables	45,694	–	45,694

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are 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 2011 and 31 December 2010.

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 end of the reporting periods were as follows:

Group	2011 HK'000	2010 HK'000
Interest-bearing bank borrowings	**1,124,015**	592,815
Total assets	**9,581,332**	7,262,426
Gearing ratio	**11.7%**	8.2%

40. EVENT AFTER THE REPORTING PERIOD

On 12 January 2012, a total of 40,000,000 share options were granted to individuals in respect of their services to the Group in the forthcoming year. The closing price of the Company's shares at the date of grant was HK$5.66 per share. These share options shall have a validity period of 3 years from 12 January 2012 to 11 January 2015, both dates inclusive. 50% of the share options shall be vested on the date falling the first anniversary of the date of grant and exercisable from 12 January 2013 to 11 January 2015. The remaining 50% of the share options shall be vested on the date falling the second anniversary of the date of grant and exercisable from 12 January 2014 to 11 January 2015.

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2012.

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				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**6,354,218**	5,191,358	4,439,991	2,525,895	1,768,418
Cost of sales	**(4,027,521)**	(3,251,658)	(2,758,068)	(1,579,861)	(1,087,161)
Gross profit	**2,326,697**	1,939,700	1,681,923	946,034	681,257
Other income and gains	**110,269**	44,499	38,807	19,083	23,766
Research and development costs	**(361,914)**	(210,912)	(167,024)	(132,253)	(91,087)
Selling and distribution costs	**(437,088)**	(265,622)	(234,153)	(185,811)	(134,953)
Administrative expenses	**(830,714)**	(627,514)	(544,051)	(370,112)	(271,712)
Other expenses	**(1,331)**	(2,631)	(10,171)	(3,554)	(1,534)
Finance costs	**(29,403)**	(20,790)	(12,722)	(13,405)	(7,973)
PROFIT BEFORE TAX	**776,516**	856,730	752,609	259,982	197,764
Income tax expense	**(121,772)**	(119,540)	(142,291)	(27,493)	(7,193)
PROFIT FOR THE YEAR	**654,744**	737,190	610,318	232,489	190,571
Attributable to:					
Owners of the parent	**659,084**	724,326	564,500	227,512	191,619
Non-controlling interests	**(4,340)**	12,864	45,818	4,977	(1,048)
	654,744	737,190	610,318	232,489	190,571

Five Year Financial Summary

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**9,581,332**	7,262,426	5,725,107	3,452,397	2,759,342
TOTAL LIABILITIES	**(5,498,508)**	(3,953,401)	(3,131,992)	(1,463,390)	(1,054,392)
NON-CONTROLLING INTERESTS	**(68,760)**	(69,501)	(56,773)	(14,468)	(6,694)
	4,014,064	3,239,524	2,536,342	1,974,539	1,698,256

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