China Wireless Technologies Limited
中國無線科技有限公司
(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2007

Stock Code: 2369

Coolpad
酷派298
中国无线
CHINA WIRELESS

Contents

Corporate Profile

China Wireless Technologies Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2002. The shares of the Company (the "Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2004 (Stock Code: 2369).

Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong") is an indirect wholly-owned subsidiary of the Company. It was founded by Mr. Guo Deying (the Company's Chairman, Executive Director and CEO) in April 1993.

Shenzhen Yulong is a leading developer and provider of integrated solutions for smartphone sets, mobile data platform system, and value-added business operations in the People's Republic of China (the "PRC"). The company mainly provides its products for enterprises, governmental departments and telecommunications operators in Mainland China.

In the last decade, capitalizing on the development of wireless telecommunications technological know-how in wireless telecommunications across multiple wireless telecommunications network standards including paging, GSM, CDMA1X, TD-SCDMA and PHS network, the Company and its subsidiaries (the "Group") have developed a number of various proprietary technologies and patents such as operating systems, radio frequency, protocols and wireless data decomposed transmission technology. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of high-end dual-mode smartphone in the global telecommunications market. The Group is currently focused on two product series, namely, smartphone (for China network operators and other industry users) and other products (like telecommunications network coverage system).

As a leading wireless data solutions developer in the China mobile telecommunications market, the Group has also succeeded in breaking the global telecommunications market. The Group strives to further develop in the global telecommunications markets and has established strong and strategic cooperation relationships with certain global telecommunications operators.

The Group is committed to make every single individual to have the privilege to enjoy the extravagant experience of using integrated terminal of wireless data solutions. To achieve this goal, the Group is striving to realize its clients' dream by providing personalized products and services based on its own operating systems and other application software.

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 THE PRC

No. 2 Flat
Coolpad Cyber Park
Mengxi Boulevard
Northern Part of Science & Technology Park
Nanshan District
Shenzhen

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1902
Mass Mutual Tower
38 Gloucester Road
Wanchai
Hong Kong

WEBSITE ADDRESS

www.chinawireless.cn
www.irasia.com/listco/hk/chinawireless

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. JIANG Chao, ACCA

AUDIT COMMITTEE

Mr. CHAN King Chung *(Chairperson)*
Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. YANG Xianzu

AUTHORISED REPRESENTATIVES

Mr. GUO Deying
Mr. JIANG Chao

AUDITORS AND REPORTING ACCOUNTANTS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
Butterfield House,
68 Fort Street
P.O. Box 705
George Town,
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–16
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
DBS Bank (Hong Kong) Ltd.
CITIC Ka Wah Bank Ltd.
Oversea-Chinese Banking Corporation Ltd.

STOCK CODE

2369

Financial Highlights

The financial data below are extracted from the Group's audited financial statements prepared 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. Any discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young and the accompanying notes as set out in this annual report.

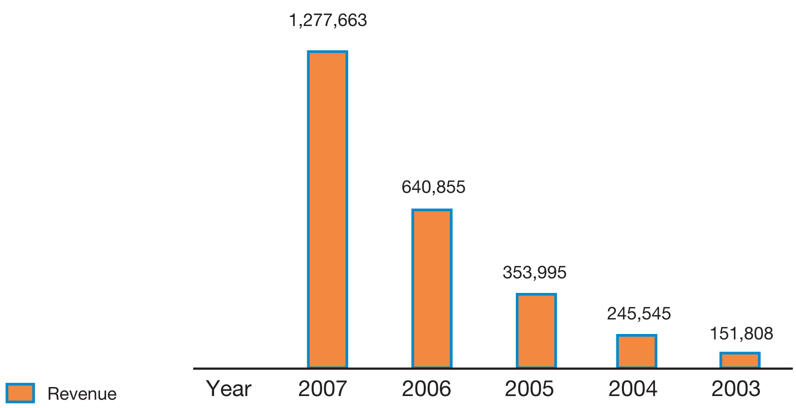
CONDENSED CONSOLIDATED INCOME STATEMENTS

	(In thousands of Hong Kong Dollars, H.K.GAAP) Year ended 31 December				
	2007	2006	2005	2004	2003
Continuing operations revenue	**1,277,663**	640,855	353,995	245,545	151,808
Profit before tax	**167,520**	53,684	60,318	51,195	39,966
Tax	**—**	—	(9,442)	(7,528)	(3,103)
Profit for the year	**167,520**	53,684	50,876	43,667	36,863
Net profit attributable to shareholders	**167,520**	53,684	50,876	43,667	36,863

CONDENSED CONSOLIDATED BALANCE SHEETS

	(In thousands of Hong Kong Dollars) Year ended 31 December				
	2007	2006	2005	2004	2003
Non-current assets	**432,000**	168,586	64,468	39,485	30,660
Current assets	**812,149**	854,087	527,554	341,813	175,478
Non-current liabilities	**91,083**	102,939	2,035	1,191	–
Current liabilities	**491,716**	488,070	276,291	165,097	111,016
Net assets	**661,350**	431,664	313,696	215,010	95,122

ANNUAL REVENUE (in thousands of HK Dollars)



Chairman's Statement

The Group recorded outstanding performance in 2007. Total revenue of the Group in 2007 increased by 99.4% to HK$1,277.7 million from HK$640.9 million in 2006.

Chairman's Statement

Dear Shareholders:

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual report of the Group for the financial year ended 31 December 2007. I would like to express my sincere gratitude for your concern and support for the Company.

REVIEW OF THE PERFORMANCE OF THE GROUP FOR THE YEAR END 31 DECEMBER 2007

Operating Results

The Group recorded outstanding performance in 2007. Total revenue of the Group in 2007 increased by 99.4% to HK$1,277.7 million from HK$640.9 million in 2006. The increase was mainly attributable to the growth in revenue from the Group's dual-mode smartphone business.

The Group's net profit for the year ended 31 December 2007 was HK$167.5 million, representing a significant year-on-year increase of 212.0%. The net profit margin in 2007 rose to 13.1% from 8.4% in 2006.

Basic and diluted earnings per share for the year ended 31 December 2007 were HK$8.33 cents and HK$7.98 cents, respectively.

Dividends

The Directors do not recommend the payment of any final dividend for the year. The Group intends to capitalize the profit on R&D of new technologies and the fixed assets.

Business Review

The revenue and profit of the Group in 2007 reached a significant increase respectively, because the Group broadened its product lines and its customers' base during the year. The Group has launched twelve dual-model smartphones in 2007. Most notably, the Group launched three GSM-GSM dual-mode smartphones and

supplied them to a China's GSM network operator since July 2007, and the Group has developed co-operation relations with China's biggest network operator since then.

As an enterprise which places strong emphasis on the R&D for products and innovations, the Group has established an outstanding R&D team and has became one of the strongest smartphone developers in Mainland China. The Group has restructured its R&D department to establish an ID center in June 2007, in order to improve its products design and R&D capabilities. At the early stage of China 3G commercialization, the Group obtained satisfactory results in TD-SCDMA network trials through close collaboration with China telecommunications operators. In addition, the Group received a China 3G Access License from the Ministry of Information Industry of the People's Republic of China (MII). Subsequently, the Group launched Coolpad 6260 as its first TDSCDMA-GSM dual-mode smartphone in the PRC.

The Group cooperated closely with a number of well-known global technologies companies, like Microsoft, Qualcomm, Datang and TI. The Group now has been one of the biggest developers specializing in operating system based on Windows CE in the world. The Group has also been cooperating with Qualcomm in the chipset field. The Group invested in a broad range of advertising and marketing initiatives to strengthen the "Coolpad" brand recognition, maintaining its high and good reputation in China's smartphone market.

The Group expanded its after-sales team considerably and committed to offering the best after-sales service for Coolpad users. The Group has established Coolpad after-sales service shops in all municipal cities, as well as most secondary cities in Mainland China. And the Group launched various training programs for operators' salesman to enhance their skills to well support the customers after-sales service.

The Group has strove to develop its value-added business during the last year. The Group has provided many value-added services for Coolpad users, such as games downloading, GPS, online TV, Video, securities trading, wireless data backup and resolving and others. The Group believes all these will pave the way for the Group's long-term development.

The Group put a strong emphasis on sound financial management and on the enhancement of general operation efficiency. Especially, the audit department of the Company helped the Group improve its financial audit to strengthen the financial regulation and the financial risks management of the Group.

All in all, the Board and the management (the "Management") of the Group have done a great deal of hard work to improve the Company's key competitive advantages to consolidate its leading position in the field of wireless technologies.

PROSPECTS OF THE GROUP FOR 2008

The Group's focus in 2008 is as follows:

The Group will endeavor to capitalize on R&D development to expand its China's high-end dual-mode smartphone market share through delivering additional high quality and differentiated smartphones. The Group plans to launch six CDMA-GSM dual-mode models, four GSM-GSM dual-mode models and another two CDMA single-mode smartphones. Being one of the most important TDSCDMA-GSM dual-mode smartphone developers, the Group plans to develop two to three TDSCDMA-GSM dual-mode models in 2008. The Group believes that the TDSCDMA-GSM devices will get a larger share in the China's TD dual-mode smartphones market, and it will further broaden the Group's source of revenue in 2008.

The Group will further improve its R&D platform and solutions. Through the integrated and standards-based development platform, the Group will make the Coolpad terminals and wireless data solutions compatible with more third-party applications. In order to broaden its source of revenue, the Group will take new ventures to develop the "Coolpadtone" data service and other wireless data solutions. The Group will also expand its product portfolio to support for emerging network technologies, such as WiMax, WCDMA, CDMA2000, etc.

The Group strives to further cooperate with telecom operators to broaden its client base and work closely with other well-known enterprises to enhance its R&D capabilities. The Group will participate in more domestic and global telecommunications exhibitions and improve its media exposure by placing more advertisement in newspapers, aviation magazine and other outdoor media.

The Group strives to penetrate the overseas markets by cooperating with foreign telecommunications operators in respect of its own Coolpad brand. In addition, the Group will improve its customer services in the coming year. And in line with its existing policies, the Group will put strong emphasis on the human resource deployment.

The Board and the Management are looking forward to the future and are confident in the Group's development and prosperity, although the Group still faces challenges from its competitors and uncertainties of China telecom operators' restructuring in 2008. We will adhere to the philosophy of hard working to achieve excellence through the Group's operations and deliver sound results to the shareholders and the society.

Guo Deying
Chairman Executive Director and CEO
HongKong, April 14, 2008

Management Discussion and Analysis

In terms of revenue mix, revenue from smart-phones segment accounted for 99% of the Group's turnover in 2007, as compared with 98% in 2006.

REVENUE ANALYZED BY PRODUCT SEGMENTS

The following table sets out the revenue and the corresponding percentage of the total revenue attributable to the major product segments of the group for the periods indicated.

	2007		2006	
Product segment	**Revenue HK$ in millions**	**Percentage of total revenue**	Revenue HK$ in millions	Percentage of total revenue
Smartphones				
CDMA/GSM dual-mode smartphones	**1,039.4**	**81%**	526.5	82%
GSM/GSM dual-mode Smartphones	**143.1**	**11%**	—	—
CDMA single-mode smartphones	**83.3**	**7%**	104.2	16%
Subtotal	**1,265.8**	**99%**	630.7	98%
Other products	**11.9**	**1%**	10.2	2%
Total	**1,277.7**	**100%**	640.9	100%

For the year ended 31 December 2007, the Group's revenue increased by 99.4% to HK$1,277.7 million, as compared with HK$640.9 million in 2006. The increase was mainly attributable to the growth in revenue from the dual-mode smartphones, as CDMA-GSM dual-mode smartphones segment and GSM-GSM dual-mode smartphones segment. The revenue from the CDMA single-mode smartphones segment decreased by 20% to HK$83.3 million in 2007, as compared with HK$104.2 million in 2006. The Group endeavored to market an increasingly wide variety of high-end new innovative smartphones for different users during the last year, the Group began to market GSM-GSM dual-mode smartphones to GSM Network distributors and overseas operators and clients. These activities further strengthened the Group's products' diversification and client base in the smartphone segment.

GROSS PROFIT

Despite the fierce competition, the gross profit margin of the Group increased by 3.4% to 40.8% in 2007, as compared with 37.4% in 2006. The Group's gross profit rose to HK$521.3 million in 2007 from HK$240.0 million in 2006. The increase is attributable to the Group's strength in developing dual-mode smartphones and its effective cost control.

	2007		2006	
Product segment	**Gross profit HK$ in millions**	**Gross profit margin**	Gross profit HK$ in millions	Gross profit margin
Smartphones				
CDMA-GSM dual-mode smartphones	**450.2**	**43.3%**	189.2	35.9%
GSM-GSM dual-mode Smartphones	**48.8**	**34.1%**	—	—
CDMA Single-mode smartphones	**20.4**	**24.5%**	45.4	43.6%
Other products	**1.9**	**16.0%**	5.4	52.9%
Total	**521.3**	**40.8%**	240.0	37.4%

Gross profit margin of the Group's CDMA-GSM dual-mode smartphones segment rose to 43.3% in 2007 from 35.9% in 2006, mainly due to its scale efficiency and the growing Coolpad brand awareness. While the gross profit of the CDMA Single-mode smartphones segment in 2007 dropped to 24.5% from 43.6% in 2006, and the gross profit of other products segment decreased significantly, these decreases were due to the Group's change in strategic focus to research and development of the high-end dual-mode smartphones in 2007. Besides, in the GSM-GSM dual-mode smartphones segment, it realized a good result in the second half year, with a gross profit of 34.1%.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs in 2007 amounted to HK$213.5 million, representing a 147.2% increase as compared with HK$86.4 million in 2006. Selling and distribution costs accounted for 16.7% of the total revenue in 2007, as compared with 13.5% in 2006. It was due to that the Group diverted more resource to promotional and advertising activities in order to extend distribution network and enhance the "Coolpad" brand awareness and reputation.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses in 2007 amounted to HK$192.5 million, representing a 80.2% increase from HK$106.8 million in 2006, while administrative expenses accounted for 15.1% of the total revenue in 2007, as compared with 16.7% of the total revenue of the Group in 2006. The decrease of administrative expenses as a percentage of the total revenue was mainly attributed to the Group's improved administrative efficiency.

INCOME TAX EXPENSES

The Group's income tax expense in 2007 was nil. In accordance with the Income Tax Law of the PRC for Foreign Investment Enterprise and Foreign Enterprises and as approved by relevant tax authorities, Shenzhen Yulong, (an indirect wholly-owned subsidiary of the Company operating in Mainland China which is qualified as a high-technology enterprise and operates in Shenzhen) was exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996. An income tax rate of 15% was applied for the year ended 31 December 2006. No provision for taxation has been made as Shenzhen Yulong suffered a loss for the year. Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad Software") was established in the PRC as a limited liability company on 7 March 2006 and commenced operation in September 2006. Shenzhen Coolpad Software also enjoyed exemption from corporation income tax for the two years starting from the first profitable year of operation and was entitled to a 50% relief from the corporate income tax of the PRC for the following three years. Since the tax holiday of Shenzhen Coolpad Software commenced in 2006, no provision for income tax was needed in current year. Dongguan Yulong Computer Telecommunications Scientific Co., Ltd. ("Dongguan Yulong") was established in the PRC as a limited liability company on 3 November 2006. There were no operations for Dongguan Yulong as at 31 December 2007, and Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad Software") was established on 2 November 2007, which also had no operations as at 31 December 2007.

NET PROFIT

For the year ended 31 December 2007, the Group recorded a net profit of HK$167.5 million, representing a significant year-on-year increase of 212.0% over 2006. The net profit margin in 2007 rose to 13.1% from 8.4% in 2006. The increases were due to (i) the Group's broadened revenue source resulting from its diversified dual-mode smartphones marketed to different networks during the reporting period; and (ii) the Group's improved scale efficiency in cost and expenses management.

BUSINESS REVIEW

The number of new innovative products of the Group increased dramatically during the reporting period. During the year ended 31 December 2007, the Group offered four series twelve dual-model smartphones and other enterprise program products. Most notably, since July 2007 the Group launched three GSM-GSM dual-mode smartphones for China GSM network distributor's customized smartphones, which has laid solid foundations for further collaborations with China's GSM network operators. The Group's CDMA-GSM dual-mode smartphones maintained a strong market share in the CDMA market in Mainland China.

The Group has established an outstanding R&D team and became one of the strongest smartphone developers in China. In order to improve its R&D abilities, the Group restructured its R&D department by establishing an ID center with more senior designers and chartered engineers. The Group endeavors to make its ID center the best ID center among telecommunications companies in China. In addition, the Group received the approval for trial network access license in December 2007, then its Coolpad 6260 was introduced to the market as the first TDCDMA-GSM dual-mode smartphone in the PRC. As a result, the Group's focus on the development and innovation of technologies has been its key competitive advantage.

The Group has built high brand awareness for Coolpad. The Group invested in a broad range of marketing initiatives to strengthen the "Coolpad" brand recognition. The Group established Coolpad after-sales service shops in all municipal cities and most secondary cities in Mainland China. Besides, the Group launched numerous training programs for telecommunication operators' sales force to enhance their after-sales service skills. The Group believes the improved quality of after-sales services is an important competitive advantage for the Group.

The Group cooperated closely with a number of various well-known global technologies companies, like Microsoft, Qualcomm, Datang and TI. The Group is one of the biggest developers specializing in operating system based on Windows CE in the world. The Group has also been cooperating with Qualcomm in the production of chipset. After several years of cooperation, Qualcomm entrusted the Group to develop and improve its up-to-date CDMA chipset. The Group also strove to develop its value-added business. The Group established a "Coolpadtone" program whereby it provides games downloading, data resolving, GPS, Video, online TV, Wireless data back-up and other value-added data services to its end-users. All these set the Group's long-term development on solid ground.

The Group put a strong emphasis on sound financial management and improved the efficiency of fund operation. The audit department of the Company helped the Group improve the subsidiaries' financial audit so as to strengthen the financial regulation and reduce the financial management risks of the Group.

BONUS SHARES

The first time bonus shares were issued on the basis of one bonus share for every one ordinary share at a par value of HK$0.01 each to shareholders whose appeared names appeared on the register of members on 22 May 2007 and the second bonus shares were issued on the basis of one bonus share for every one ordinary share at a par value of HK$0.01 each to shareholders whose names appeared on the register of members on 8 October 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had a gearing ratio of 47% (based on debt over total assets) (2006: 58%).

As at 31 December 2007, the Group had a current ratio of 1.7 (based on current assets over current liability) (2006: 1.7).

BUSINESS OUTLOOK

As looking forward to the future, the Group is confident in its development and prosperity from the opportunities brought by the steady growth of the telecommunications industry in Mainland China combined with the unveiling of the 3G business, although the Group in the short run faces challenges from its competitors and uncertainties in China telecom operators' restructuring in 2008. The Group plans to make further development in our strategies of products differentiation, R&D, human resource deployment and pursue growth through market expansion, product quality and after-sales service improvement, brand name enhancement, etc.

The Group's focus in 2008 is as follows:

The Group will endeavor to capitalize on R&D development to expand its China's high-end dual-mode smartphone market share through delivering additional high quality and differentiated smartphones and wireless solutions. The Group plans to launch six CDMA-GSM dual-mode models, four GSM-GSM dual-mode models and another two CDMA single mode smartphones. Being one of the most important TDSCDMA-GSM dual-mode smartphone developers, the Group plans to develop two to three TDSMCA-GSM dual-mode models in Mainland China. The Group believes that the TDSCDMA-GSM devices will get a larger share in the China's TDSCDMA smartphones market, and it will further broaden the Group's source of revenue in 2008.

The Group will further improve its R&D platform and solutions. Through the integrated and standards-based development platform, the Group will make the Coolpad terminals and wireless data solutions compatible with more third-party applications. In order to broaden its source of revenue, the Group will take new ventures to develop the "Coolpadtone" data service and other wireless data solutions. The Group will also expand its product portfolio to support for emerging network technologies, such as WiMax, WCDMA, CDMA2000, etc.

The Group strives to further cooperate with telecommunications operators to broaden its client base, and work closely with other well-known enterprises to enhance its R&D capabilities. The Group will participate in more domestic and global telecommunications exhibitions and improve its media exposure by placing more advertisement in newspapers, aviation magazine and other outdoor media.

The Group strives to penetrate into the oversea markets by cooperating with foreign telecommunications operators in respect of its own Coolpad brand.

PLEDGE OF ASSETS

As at 31 December 2007, approximately HK$9.7 million of the Group's bank deposits was pledged to secure notes payable and about HK$19.5 million of the Company's bank deposits was pledged to secure a letter of credit. The Group's leasehold land with a net book value of approximately HK$12.2 million was pledged to secure a long term bank loan with the current portion amounting to HK$27.8 million (2006: Nil) and the non-current portion amounting to HK$79.1 million (2006: HK$99.5 million) granted to the Group.

FOREIGN EXCHANGE EXPOSURE

During the reporting period, the Group's expenses, assets and liabilities were mainly denominated in Renminbi ("RMB"). Taking into account the Group's operation and capital needs, the Directors considered that the Group did not have any significant foreign exchange exposure.

EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK$147.3 million. The remuneration of the Group's employees is commensurate with their responsibilities and the market levels, with discretionary bonuses and training given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2007.

MATERIAL ACQUISITIONS AND DISPOSAL DURING THE YEAR

There were no material acquisitions and disposal of the Company and its subsidiaries as at 31 December 2007.

Corporate Governance Report

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure.

The Board believes that good corporate governance is beneficial for maintaining close and trust relationships with its employees, business partners, shareholders and investors.

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the year ended 31 December 2007, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

BOARD OF DIRECTORS

It is the duty of the Board to establish the Company's strategic direction, set the Company's objectives and plan in accordance therewith, and provide leadership and ensure availability of resources in the attainment of such objectives. The Board endeavors to manage the Company in a responsible and effective manner, and strives to ensure that each of the Directors carries out his/her duty in good faith and in compliance with the memorandum and articles of association of the Company (the "Articles of Association"), the applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board and the Management have clearly defined responsibilities under various internal control and checks-and-balance mechanisms. The Board has delegated certain responsibilities to the Management, including implementation of decisions of the Board and organization and direction of the day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board; preparation and monitoring of annual business plans and operating budget; and control, supervision and monitoring of capital, technical and human resources. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

BOARD COMPOSITION

The Board currently comprises eight Directors, two of whom are executive Directors, two are non-executive Directors and four are independent non-executive Directors ("INEDs"). The composition of the Board is set out as follows:

Executive Directors
Mr. Guo Deying (the chairman of the Board and CEO)
Mr. Jiang Chao

Non-Executive Directors
Ms.Yang Xiao
Mr. Ma Dehui

INEDs
Dr. Huang Dazhan
Mr. Xie Weixin
Mr. Chan King Chung
Mr. Yang Xianzu

The biographies of the Directors are set out in the section headed "Directors and Senior Management" on pages 21 to 22 of this annual report.

To the best of the Company's knowledge, there is no financial or family relationship among the Board members except that Ms. Yang Xiao, a non-executive Director, is the spouse of Mr. Guo Deying, an executive Director, the chairman of the Board and the chief executive officer. In addition, Ms. Ma Dehui, a non-executive Director, is the mother of Ms. Yang Xiao thus the mother-in-law of Mr. Guo Deying.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate affairs. The insurance coverage is reviewed annually.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Guo Deying is the chairman of the Board and the chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management and believes that this structure enables the Group to make and implement decision promptly and efficiently.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs have the same duties of care, skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors. The INEDs have expertise in respective areas of accounting, business management and possess in-depth industry knowledge. With their professional knowledge and experience, the INEDs have advised the Company on its operation and management; participated in the Audit Committee meetings and Remuneration Committee meetings of the Company. The INEDs have contributed to provide checks and balance to protect the interests of the Company and its shareholders as a whole, and to promote the development of the Company.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and on this basis, considers that all INEDs to be independent as at the date of this report.

Under Code Provision A.4.1 of the Code, non-executive Directors should be appointed for specific terms, subject to re-election. Currently, all INEDs are appointed for a period of one year subject to renewal and retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

BOARD OPERATION

During the year ended 31 December 2007, the Board held six meetings. Attendance of individual Directors at the Board meetings in 2007 is as follows:

Name of director	Number of meetings attended
Executive Directors	
Mr.Guo Deying	6/6
Mr. Jiang Chao	6/6
Non-executive Directors	
Ms. Yang Xiao	6/6
Ms. Ma Dehui	6/6
Independent Non-executive Directors	
Mr. Chan King Chung	6/6
Dr. Huang Dazhan	5/6
Mr. Yang Xianzu	6/6
Mr. Xie Weixin	5/6

REMUNERATION COMMITTEE

The written terms of reference of the Remuneration Committee are in compliance with the Code. The primary duties of the Remuneration Committee include (without limitation):

(a) To make recommendations to the Board on policies and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

(b) To determine the remuneration packages for executive Directors and senior management and to make recommendations to the Board on the remuneration of non-executive Directors.

The Remuneration Committee is made up of all of the INEDs, namely, Mr. Chan King Chung (Chairman), Dr. Huang Dazhan, Mr. Yang Xianzu and Mr. Xie Weixin.

The Remuneration Committee had two meeting in 2007 which were attended by all the members of the Remuneration Committee, which was consulted by Mr. Guo Deying, the chairman of the Company, to review the remuneration packages of Directors and senior management of the Group and share option scheme.

No Directors took part in any discussion about his or her own remuneration.

PROVISION OF INFORMATION TO DIRECTORS

To assist the Directors in the discharge of their respective duties, the Company will provide every newly appointed Director with a comprehensive induction program on the first occasion of his appointment, in which the newly appointed Director will be provided with information on the Company's organisation and business, including the membership, duties and responsibilities of the Board, the various Board committees and the Management; corporate governance practices and procedures; and the latest financial information of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key members of the Management.

Throughout their tenure, the Directors will be provided with updates on the business of the Company, latest developments of the Listing Rules and other applicable legal and regulatory requirements, corporate social responsibility matters and other changes affecting the Company from time to time.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all relevant persons as defined in the Model Code, including all the Directors, all other employees of the Company, and directors and employees of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors who have confirmed in writing their compliance with the required standards set out in the Code of Conduct during the year under review.

AUDIT COMMITTEE

The Audit Committee, comprising all four INEDs, namely, Mr. Chan King Chung (Chairman), Mr. Yang Xianzu, Dr. Huang Dazhan and Mr. Xie Weixin, has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters.

In 2007, the Audit Committee held three meetings. The attendance record of each member of the Audit Committee is set out below:

Name	**Number of meetings attended**
Mr. Chan King Chung *(Chairman)*	3/3
Dr. Huang Dazhan	2/3
Mr. Yang Xianzu	3/3
Mr. Xie Weixin	2/3

The Audit Committee has carefully reviewed and discussed the Company's half-yearly and annual results for the year under review and system of internal control and has made recommendations for improvement. The Audit Committee has carried out and discharged its duties set out in Code.

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledged their responsibility for all information and representations contained in the financial statement of the Company. The Directors have reviewed and considered that the financial statements of the Company have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflected amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the Management with an appropriate consideration to materiality.

The Board has reviewed and is satisfied with the effectiveness of the Group's internal control system and believe that, such system is sufficient in providing reasonable assurances that the Group's assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and proper accounting records are maintained. Such system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational system.

NOMINATION OF DIRECTORS

Directors are responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors and Board succession, with a view to appointing to the Board individuals with the relevant experience and capabilities to maintain and improve the competitiveness of the Company. The Board formulates the policy, reviews the size, structure and composition of the Board, and assesses the independence of the INEDs in accordance with the criteria prescribed under the Listing Rules and the Code.

EXTERNAL AUDITORS

Ernst & Young has been appointed as the External Auditors of the Company for the year under review. An amount of HK$2.05 million (equivalent to RMB2 million) (2006: HK$1.68 million) was charged by Ernst & Young for its audit services provided to the Group. The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditors' Report" on page 33 of this report.

COMMUNICATION WITH SHAREHOLDERS

The Company recognizes the importance of good communications with its shareholders and investors. The Company provides information relating to the Company and its business in its annual and half-yearly reports and also disseminates such information electronically through its website at www.chinawireless.cn and the website of the Stock Exchange. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. All shareholders of the Company are given a minimum of 21 days' notice of the date and venue of such annual general meeting. The Company supports the Code's principle to encourage shareholders' participation.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the Company's registered address or by e-mail to the Company's mail address at ir@yulong.com.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. GUO Deying, aged 43, is an executive Director, the chairman and chief executive officer of the Group. He is responsible for the Group's overall management and strategic development. Mr. Guo has been the chairman, the legal representative and the general manager of the Group since its establishment in 1993. Mr. Guo has about 15 years of experience in the wireless communication industry. Mr. Guo was certified as an engineer by Shenzhen City Engineering Technical Central Examination Board (深圳市工程技術中評委) in December 1991. He received a master's degree in engineering from Shanghai Jiao Tong University (上海交通大學). Mr. Guo was appointed as a guest professor by Xidian University (西安電子科技大學) for its computer network and information security department in November 2003. In October 2004, Mr. Guo was accredited as Outstanding Entrepreneur of Private-owned Technology Companies in the PRC (中國優秀民營科技企業家) by China National Industrial and Commercial Association (中華全國工商業聯合會) and China Private-owned Technology Industrialists Association (中國民營科技實業家協會).

Mr. JIANG Chao, aged 37, is an executive Director, the chief financial officer, vice president of the Group, and the qualified accountant and company secretary of the Company. Mr. Jiang is responsible primarily for the finance and administrative functions of the Group. He is an associate member of the Association of Chartered Certified Accountants and a certified public accountant in the PRC. Mr. Jiang joined the Group in June 2002. Mr. Jiang has about 15 years of experience in accounting and finance. Prior to joining the Group, he had worked for the State Audit Bureau. Mr. Jiang had also worked for Qiaoxing Electronic Company Limited (僑興電子有限公司, NASDAQ: XING) and Shenzhen Zhong Xing Xin Telecom Equipment Company Limited (深圳市中興新通訊設備有限公司, 763), where he was responsible for financial and accounting functions. Mr. Jiang obtained a bachelor's degree in economics from SUN YAT-SEN University (中山大學) in 1991.

Non-executive Directors

Ms. MA Dehui, aged 77, is a non-executive Director. Ms. Ma joined the Group in August 2003. She was an associate professor of the faculty of computer science and technology department in South Western University for Nationalities (西南民族大學). Ms. Ma is the mother of Ms. Yang Xiao, a non-executive Director.

Ms. YANG Xiao, aged 39, is a non-executive Director. Ms. Yang joined the Group in August 2001. She graduated with a diploma from 深圳大學 (Shenzhen University). During 1992 to 1995, Ms. Yang worked in Shenzhen Transport Bureau (深圳市運輸局). Ms. Yang is the spouse of Mr. Guo.

Ms. Ma and Ms. Yang do not hold any management role in the Company.

Independent non-executive Directors

Dr. HUANG Dazhan, aged 50, is an independent non-executive Director and joined the Group in November 2004. Dr. Huang obtained his doctorate degree from The Victoria University of Manchester, England, the United Kingdom in 1993. Dr. Huang now serves as the Deputy General Management of China Merchant Shekou Industrial Zone Co., Ltd..

Mr. XIE Weixin, aged 66, is an independent non-executive Director and joined the Group in November 2004. Mr. Xie graduated from the Department of Electronics Engineering of Xian University of Electronics Technology in 1965. Mr. Xie is currently a professor of electrical engineering and the chancellor of Shenzhen University.

Mr. CHAN King Chung, aged 46, is an independent non-executive Director and joined the Group in November 2004. He obtained a bachelor's degree in business administration and accountancy from the Chinese University of Hong Kong in 1987 and City University of Hong Kong in 1993, respectively. Mr. Chan also obtained a master's degree in business administration and accountancy from Murdoch University in 2000 and Charles Sturt University in 1994, respectively. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Company Secretaries and a fellow member of The Hong Kong Institute of

Directors. With 11 years of experience in corporate governance, management and financial controlling, Mr. Chan is currently the company secretary of Shenzhen High-Tech Holdings Limited (the shares of which are listed on the Main Board of the Stock Exchange, stock code: 106).

Mr. YANG Xianzu, aged 68, is an independent non-executive Director and joined the Group in May 2006. He graduated from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications in 1965 and served as the Deputy Director General of the Post and Telecommunications Bureau of Hubei Province and the Director General of the Post and Telecommunications Administration of Henan Province. From 1990 to 1999, Mr. Yang served as the Vice Minister of the Ministry of Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. He was the chairman and chief executive officer of China Unicom Limited (the shares of which are listed on the Main Board of the Stock Exchange, stock code: 762) from 2000 to 2003. He is currently an independent non-executive director of Dongfeng Motor Group Company Limited (the shares of which are listed on the Main Board of the Stock Exchange, stock code: 489). Mr. Yang has over 35 years of experience in the telecommunications industry in China. Mr. Yang has extensive knowledge on telecommunications operations and control.

SENIOR MANAGEMENT

Mr. LI Wang, aged 36, is a deputy general manager of the Group and is responsible for the Group's sales and marketing functions. He joined the Group in March 2001. He has 10 years of experience in the information technology industry. Before joining the Group, he worked for Hua Wei Technology Company Limited (華為技術有限公司). He obtained a master's degree in business administration from Dalian University of Technology (大連理工大學) in 1997.

Mr. DONG Yongquan, aged 45, is a deputy general manager of the Group and is responsible for the R&D of hardware development. Prior to joining the Group in July 1997, he worked for Shenzhen Winhap Communications Inc. (深圳雲海股份有限公司), which is mainly engaged in the R&D of smartphones. He has over 11 years of experience in developing wireless data communication products. Mr. Dong graduated from the faculty of wireless communication of Changchun Institute of Post and Telecommunications (長春郵電學院) in 1987. He was awarded Shenzhen Municipal Young Technologist Prize — Bank of China Group Award (深圳市青年科技專家中銀集團獎) in 2000. Mr. Dong was appointed as a guest professor by Xidian University in November 2003.

Mr. LI Liuqun, aged 45, is a deputy general manager of the Group and is responsible for logistic, purchasing and production functions. Mr. Li also acts as the general manager of the mobile industry department. He has about 21 years of experience in the wireless telecommunication industry. Prior to joining the Group in December 2000, he worked for State 760 Factory (國營第七六零廠). He obtained a bachelor's degree in engineering from Xi'an University of Electronics Technology (西北電訊工程學院) in 1985.

Mr. LI Bin, aged 38, is a deputy general manager of the Group and is responsible for the research and development of software and testing. Mr. Li has more than 10 years of experience in software development and testing. He joined the Group in June 1996. Prior to joining the Group, Mr. Li worked in China Sanjiang Aviation Industry Group Company (中國三江航天工業集團有限公司). He obtained a bachelor's degree in computer science and software engineering from Huazhong University of Science and Technology (華中理工大學) in 1992.

Mr. Zhang Hanwu, aged 45, is a deputy general manager of the Group and is responsible for the human resources and administration functions. Mr. Zhang has 19 years of specialized experience in human resources and administration in various industries. Prior to joining the Group in 2006, he worked in fast-consuming goods industry, communications system equipment manufacture industry and communications terminal equipment manufacture industry.

Ms. FU Qun, aged 33, is an assistant general manager of the Group. Ms. Fu is responsible for the internal management of the Group and secretarial duties of the Board. She joined the Group in July 1998. She obtained a bachelor's degree in accounting from Jiangxi University of Finance and Economics (江西財經大學) in 1998.

Report of the Directors

The Directors of the Company are pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is a wireless solution and equipment provider in Mainland China. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 12 to 87.

An interim dividend of HK$0.005 per ordinary share was paid on the date of 29 October 2007. The Group has not proposed a final dividend for the year ended 31 December 2007.

BONUS SHARES

During the reporting period, the first time bonus shares were issued on the basis of one bonus share for every one ordinary share at a par value of HK$0.01 each to shareholders whose names appear on the register of members on 22 May 2007 and the second bonus shares were issued on the basis of one bonus share for every one ordinary share at a par value of HK$0.01 each to shareholders whose names appear on the register of members on 8 October 2007.

SUMMARY FINANCIAL INFORMATION

The following is a published summary of the consolidated/combined financial results and of the consolidated/combined assets and liabilities of the Group for the last five financial years, prepared on the basis set out in note 2.1 to the financial statements.

	Year ended 31 December				
	2007*	2006*	2005*	2004*	2003**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**1,277,663**	640,855	353,995	245,545	151,808
Profit before tax	**167,520**	53,684	60,318	51,195	39,966
Tax	**—**	—	(9,442)	(7,528)	(3,103)
Profit for the year	**167,520**	53,684	50,876	43,667	36,863
Attributable to:					
Equity holders of the Company	**167,520**	53,684	50,876	43,667	36,863

	2007*	2006*	2005*	2004*	2003**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**432,000**	168,586	64,468	39,485	30,660
Current assets	**812,149**	854,087	527,554	341,813	175,478
Non-current liabilities	**91,083**	102,939	2,035	1,191	—
Current liabilities	**491,716**	488,070	276,291	165,097	111,016
Net assets	**661,350**	431,664	313,696	215,010	95,122

* Extracted from the published audited financial statements

** Extracted from the published prospectus of the Company dated 30 November 2004

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 33, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's existing articles of association (the "Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$211,470,000. The Company has not proposed a final dividend for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$239,750,000 as at 31 December 2007, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when 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 95% of the total sales for the year and sales to the largest customer included therein amounted to 75%. Purchases from the Group's five largest suppliers accounted for approximately 42% of the total purchases for the year, and purchase from the Group's largest supplier accounted for approximately 24% of the total purchases for the year.

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

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Guo Deying *(Chairman and Chief Executive Officer)*
Mr. Jiang Chao

Non-executive directors:
Ms. Yang Xiao
Ms. Ma Dehui

Independent non-executive directors:
Dr. Huang Dazhan
Mr. Xie Weixin
Mr. Chan King Chung
Mr. Yang Xianzu

Under the provisions of the Articles, all of the directors of the Company are subject to retirement by rotation and re-election.

In accordance with Article 87(1) of the Articles, Mr. Jiang Chao (Mr. Jiang), Ms. Yang Xiao (Ms. Yang) and Ms. Ma Dehui will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

The Company has received from each of the independent non-executive directors an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the "Board" still considers each of the independent non-executive directors to be independent from the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 21 to 22 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company dated 14 April 2008 for a term of three years commencing from 21 November 2007 with retrospective effect.

Each of the non-executive Directors has entered into a service agreement with the Company dated 14 April 2008 for a term of three years commencing from 21 November 2007 with retrospective effect.

Except for Mr. Yang Xianzu, who has entered into a service agreement with the Company dated 26 May 2007 for a initial term of one year commencing from 26 May 2007, the remaining independent non-executive Directors have entered into service agreements dated 14 April 2008 with the Company for a term of one year commencing from 21 November 2007 with retrospective effect.

None of the directors has entered into 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' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 23 and 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2007, the interests and short positions of the directors, the chief executive or their associates in the share capital, underlying shares and debentures of the Company or its associated corporation (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 shares of the Company:

		Number of shares held, capacity and nature of interest						
Name of director	Notes	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	Total	Percentage of the Company's issued share capital
Mr. Guo Deying	1 & 2	–	831,171,248	28,096,000	–	831,171,248	859,267,248	42.48
Ms. Yang Xiao	1 & 2	–	831,171,248	28,096,000	–	831,171,248	859,267,248	42.48
Mr. Jiang Chao	3	1,456,000	–	–	28,096,000	–	29,552,000	1.46

Long positions in shares of an associated corporation:

		Number of shares held, capacity and nature of interest			
Name of director	Note	Name of the associated corporation	Through spouse or minor children	Founder of a discretionary trust	Percentage of issued share capital of the associated corporation
Mr. Guo Deying	1	Data Dreamland Holding Limited	1,000	1,000	100
Ms. Yang Xiao	1	Data Dreamland Holding Limited	1,000	1,000	100

Notes:

1. The entire issued share capital of Data Dreamland Holding Limited ("Data Dreamland") is held by Barrie Bay Limited ("Barrie Bay"), which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust of which 9,999 units are held by HSBC International Trustee Limited ("HSBC Trustee") acting as the trustee of the Barrie Bay Unit Trust and the remaining one unit is held by Ms. Yang Hua. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. Guo Deying ("Mr. Guo"), an executive director, and his spouse, Ms. Yang Xiao ("Ms. Yang"), a non-executive director, the beneficiary objects of which include the minor children of Mr. Guo and Ms. Yang. Each of Mr. Guo and Ms. Yang is taken to be interested in the 831,171,248 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Unit Trust and by virtue of the interests of their minor children under the Barrie Bay Unit Trust. The long positions in the Company's share of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of a discretionary trust" in the table headed "Long positions in shares of the Company" above refers to the same 831,171,248 shares.

   Each of Mr. Guo and Ms. Yang is taken to be interested in the entire issued share capital of Data Dreamland as each of them is a settlor of the Barrie Bay Unit Trust and by virtue of the interests of their minor children under the Barrie Bay Unit Trust. The long positions in shares of Data Dreamland of each of Mr. Guo and Ms. Yang in the column "Through spouse or minor children" and the column "Founder of a discretionary trust" under the table headed "Long positions in shares of an associated corporation" above refers to the same 1,000 shares.

2. Mr. Guo was interested in the 28,096,000 shares held by Wintech Consultants Limited as he was interested in the entire issued share capital of Wintech Consultants Limited. As the spouse of Mr. Guo, Ms. Yang is taken to be interested in the 28,096,000 shares held by Mr. Guo through Wintech Consultants Limited.

3. Mr. Jiang, an executive director, was interested in the 28,096,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group. In addition, Mr. Jiang was interested in 1,456,000 shares as a beneficial owner.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the following interests and short positions of 5% or more in the issued share capital and share options 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 in shares of the Company:

Name	Notes	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited ("Data Dreamland")	1	831,171,248	Beneficial owner	831,171,248	41.09
Barrie Bay Limited ("Barrie Bay")	2	831,171,248	Interest of controlled corporation	831,171,248	41.09
HSBC International Trustee Limited ("HSBC Trustee")	2	831,171,248	Trustee	831,171,248	41.09

Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust of which 9,999 units are held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Unit Trust and the remaining one unit is held by Ms. Yang Hua. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. Guo and Ms. Yang and the discretionary objects of which include the minor children of Mr. Guo and Ms. Yang.

2. The 831,171,248 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.

Save as disclosed above, as at 31 December 2007, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Share Option Scheme are disclosed in note 33 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options															
Name or category of participant	At 1 January 2007	Exercised before the first bonus issue	Adjusted upon completion of the first bonus issue	Number of options after the first bonus issue	Exercised before the second bonus issue	Grant during the year	Adjusted upon completion of the second bonus issue	Number of options after the second bonus issue	Exercised after the second bonus issue	Expired during the year	Forfeited during the year	At 31 December 2007	Date of grant of share options*	Exercise period of share options	Original exercise price before completion of bonus issue in 2007**	Adjusted exercise price after completion of bonus issue in 2007**
															HK$ per share	HK$ per share
Employees																
In aggregate – granted on 6 June 2005	16,000,000	–	16,000,000	32,000,000	–	–	32,000,000	64,000,000	–	–	–	64,000,000	6-06-05	7-06-05 to 6-06-08	0.7	0.175
In aggregate – granted on 20 June 2005	5,440,000	(2,544,000)	2,896,000	5,792,000	(840,000)	–	4,952,000	9,904,000	–	–	–	9,904,000	20-06-05	28-06-05 to 27-06-09	0.87	0.2175
In aggregate – granted on 27 July 2006	13,552,000	(3,088,000)	10,464,000	20,928,000	(2,060,000)	–	18,868,000	37,736,000	(24,000)	–	–	37,712,000	27-07-06	27-07-06 to 26-07-10	1.846	0.4615
In aggregate – granted on 27 July 2006	1,200,000	–	1,200,000	2,400,000	(192,000)	–	2,208,000	4,416,000	–	–	–	4,416,000	27-07-06	27-07-07 to 26-07-11	1.846	0.4615
In aggregate – granted on 18 September 2007	–	–	–	–	–	13,756,000	13,756,000	27,512,000	–	–	–	27,512,000	18-09-07	18-09-08 to 17-09-12	2.83	1.415
In aggregate – granted on 18 September 2007	–	–	–	–	–	1,920,000	1,920,000	3,840,000	–	–	–	3,840,000	18-09-07	18-09-10 to 17-09-14	2.83	1.415
Subtotal	36,192,000	(5,632,000)	30,560,000	61,120,000	(3,092,000)	15,676,000	73,704,000	147,408,000	(24,000)	–	–	147,384,000				
Business consultants	–	–	–	–	–	4,000,000	4,000,000	8,000,000	–	–	–	8,000,000	18-09-07	18-09-10 to 17-09-14	2.83	1.415
Total	36,192,000	(5,632,000)	30,560,000	61,120,000	(3,092,000)	19,676,000	77,704,000	155,408,000	(24,000)	–	–	155,384,000				

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

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

** The exercise price of a share option is the amount that the employee is required to pay to obtain each share under the option.

SHARE OPTION SCHEME (CONTINUED)

The fair value of the Group's share options was calculated by an external professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK$26,938,135 using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of share options granted on 18 September 2007	Number of share options granted adjusted upon completion of the second bonus issue	Theoretical value of share options
Employees in aggregate HK$	19,676,000	39,352,000	26,938,135

The binomial option pricing model is a generally accepted method of valuing options, using certain key determinants to calculate the theoretical value of share options. The significant assumptions used in the calculation of the values of the share options included the risk-free interest rate, expected life of options, expected volatility and expected dividend. The measurement dates used in the valuation calculations were the dates on which the options were granted. For details of the assumptions, please refer to note 33 to the financial statements.

The value of share options calculated using the binomial option pricing model is subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables determined by certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company comprising the four independent non-executive Director has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2007.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the directors or the substantial shareholders of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

MATERIAL LEGAL PROCEEDINGS

During the year, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Board was aware of.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, the percentage of shares of the Company in public hands is in compliance with the prescribed level of the minimum public float as set out in Rule 8.08 of the Listing Rules.

FOREIGN EXCHANGE EXPOSURE

During the reporting period, the Group's expenses, assets and liabilities were mainly denominated in Renminbi. Taking into account of the Group's operations and capital needs, the directors considered that the Group did not have any significant foreign exchange exposure.

EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK$147,265,000 (see note 5) to the financial statements. The remuneration of the Group's employees is commensurate with their responsibilities and the market levels, with discretionary bonuses and training given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2007.

MATERIAL ACQUISITIONS AND DISPOSAL DURING THE YEAR

There were no material acquisitions and disposal of the Company and its subsidiaries as at 31 December 2007.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant event after the balance sheet date of the Group are set out in note 41 to the financial statements.

AUDITORS

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

On behalf of the Board

Guo Deying
Chairman
Hong Kong, 14 April 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

We have audited the consolidated financial statements of China Wireless Technologies Limited (the "Company") and its subsidiaries (the "Group") set out on pages 33–108, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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
14 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	4	**1,277,663**	640,855
Cost of sales		**(756,350)**	(400,859)
Gross profit		**521,313**	239,996
Other income	4	**64,499**	17,336
Selling and distribution costs		**(213,548)**	(86,372)
Administrative expenses		**(192,481)**	(106,830)
Other expenses		**(709)**	(991)
Finance costs	6	**(11,585)**	(9,455)
Share of profit of an associate		**31**	—
PROFIT BEFORE TAX	5	**167,520**	53,684
Tax	9	**—**	—
PROFIT FOR THE YEAR		**167,520**	53,684
DIVIDENDS	11		
Difference between the proposed final 2006 dividend and the actual dividend paid		**169**	—
Interim		**10,115**	4,982
Proposed final		**—**	14,957
		10,284	19,939
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic (2006 restated)		**8.33 cents**	2.70 cents
Diluted (2006 restated)		**7.98 cents**	2.63 cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**345,680**	134,934
Investment properties	14	**28,917**	—
Prepaid land lease payments	15	**12,155**	11,597
Intangible assets	16	**36,665**	22,055
Interest in an associate	18	**8,583**	—
Total non-current assets		**432,000**	168,586
CURRENT ASSETS			
Inventories	19	**288,686**	248,306
Trade receivables	20	**168,692**	168,047
Bills receivable	21	**40,080**	—
Prepayments, deposits and other receivables	22	**194,131**	308,891
Due from directors	23	**134**	591
Pledged time deposits	26	**29,204**	44,813
Cash and cash equivalents	26	**91,222**	83,439
Total current assets		**812,149**	854,087
CURRENT LIABILITIES			
Trade payables	27	**87,879**	61,089
Bills payable	28	**36,431**	85,963
Other payables and accruals	29	**157,355**	189,096
Interest-bearing bank and other borrowings	30	**187,601**	137,451
Due to a related company	24	**—**	110
Due to a director	23	**—**	17
Due to an associate	25	**7,386**	—
Tax payable		**15,064**	14,344
Total current liabilities		**491,716**	488,070
NET CURRENT ASSETS		**320,433**	366,017
TOTAL ASSETS LESS CURRENT LIABILITIES		**752,433**	534,603

continued/...

Consolidated Balance Sheet (continued)

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**79,091**	99,532
Deferred tax liabilities	31	**11,992**	3,407
Total non-current liabilities		**91,083**	102,939
Net assets		**661,350**	431,664
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	32	**20,230**	4,986
Reserves	34	**641,120**	411,721
Proposed final dividend	11	**—**	14,957
Total equity		**661,350**	431,664

Guo Deying
Director

Jiang Chao
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2007

	Notes	**2007 HK$'000**	2006 HK$'000
TOTAL EQUITY			
Balance at 1 January		**431,664**	313,696
Surplus on revaluation of buildings	34	**39,865**	8,339
Deferred tax on revaluation reserve	34	**(8,334)**	(1,300)
Profit for the year	34	**167,520**	53,684
Dividends paid		**(25,241)**	(14,946)
Issue of shares, including share premium	32	**10,369**	56,268
Transfer to share premium account from share option reserve	32, 34	**3,012**	1,859
Share issue expenses	32, 34	**–**	(2,768)
Equity-settled share option arrangements	34	**7,007**	4,736
Transfer from share option reserve to share premium account	34	**(3,012)**	(1,859)
Exchange realignment	34	**38,500**	13,955
Balance at 31 December		**661,350**	431,664

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**167,520**	53,684
Adjustments for:			
Bank interest income	4	**(1,773)**	(1,811)
Finance costs	6	**11,585**	9,455
Share of profit of an associate		**(31)**	—
Depreciation	5	**10,438**	4,830
Amortisation of patents and licences	5	**9,433**	7,242
Amortisation of product development costs	5	**3,224**	3,234
Recognition of prepaid land lease payments	5	**298**	255
Loss on disposal of items of property, plant and equipment	5	**1**	943
Provision for trade receivables	5	**5,367**	2,337
Equity-settled share option expense	5	**7,007**	4,736
		213,069	84,905
Increase in inventories		**(20,446)**	(183,707)
(Increase)/decrease in trade receivables		**5,636**	(60,532)
Increase in bills receivable		**(37,312)**	—
(Increase)/decrease in prepayments, deposits and other receivables		**135,162**	(115,472)
(Increase)/decrease in amounts due from directors		**619**	(390)
Increase in trade payables		**20,722**	33,826
Decrease in bills payable		**(52,048)**	(5,397)
Increase/(decrease) in other payables and accruals		**(43,415)**	84,461
Increase/(decrease) in an amount due to a related company		**(110)**	4
Decrease in amounts due to directors		**(170)**	(147)
Cash generated from/(used in) operations		**221,707**	(162,449)
Tax paid		**(950)**	(6,360)
Net cash inflow/(outflow) from operating activities		**220,757**	(168,809)

continued/...

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow/(outflow) from operating activities		**220,757**	(168,809)
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received	4	**1,773**	1,811
Purchases of property, plant and equipment	13	**(202,113)**	(93,830)
Additions to product development costs	16	**(14,598)**	—
Additions to patents and licences	16	**(11,415)**	(6,489)
Additions to prepaid land lease payments	15	**—**	(12,130)
Investment in an associate		**(8,552)**	—
Decrease in pledged time deposits		**15,609**	4,264
Net cash outflow from investing activities		**(219,296)**	(106,374)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	32	**10,369**	56,268
Share issue expenses	34	**—**	(2,768)
New bank loans		**364,934**	376,328
Repayment of bank loans		**(351,060)**	(172,191)
Increase in an amount due to an associate		**7,386**	—
Interest paid		**(11,585)**	(9,455)
Dividends paid		**(25,241)**	(14,946)
Net cash inflow from financing activities		**(5,197)**	233,236
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,736)**	(41,947)
Cash and cash equivalents at beginning of year		**83,439**	109,606
Effect of foreign exchange rate changes, net		**11,519**	15,780
CASH AND CASH EQUIVALENTS AT END OF YEAR		**91,222**	83,439
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	26	**91,222**	83,439
		91,222	83,439

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**44,991**	44,991
Intangible assets	16	**3,501**	5,057
Total non-current assets		**48,492**	50,048
CURRENT ASSETS			
Due from subsidiaries	17	**162,983**	173,709
Deposits and other receivables	22	**26**	11
Pledged time deposits	26	**15,001**	5,000
Cash and cash equivalents	26	**19,244**	2,255
Total current assets		**197,254**	180,975
CURRENT LIABILITIES			
Bills payable	28	**—**	5,121
Other payables and accruals	29	**295**	85
Interest-bearing bank and other borrowings	30	**2,750**	6,069
Due to a director	23	**—**	1,390
Total current liabilities		**3,045**	12,665
NET CURRENT ASSETS		**194,209**	168,310
Net assets		**242,701**	218,358
EQUITY			
Issued capital	32	**20,230**	4,986
Reserves	34	**222,471**	198,415
Proposed final dividend	11	**—**	14,957
Total equity		**242,701**	218,358

Guo Deying
Director

Jiang Chao
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

China Wireless Technologies Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Group was involved in providing wireless solutions and equipment for the wireless telecommunication market in Mainland China. The Group focused on smartphone production and sales.

In the opinion of the directors, the holding company and the ultimate holding company of the Group is Data Dreamland Holding Limited ("Data Dreamland"), which was incorporated in the British Virgin Islands (the "BVI").

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 investment properties and certain buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

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

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements — Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 40 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specially some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to directors and employees of the Group in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK (IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK (IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
Amendments to HKFRS2	Share-based Payment[1]
HKFRS 3 (Revised)	Business Combination[5]
HKFRS 8	Operating Segments[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

HKAS 1 (Revised) sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content application. It affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKFRS2 has been amended to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity of the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. It must be applied prospectively and will affect future acquisitions and transactions with minority interests.

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

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operation segments, based on information about the components of the entity that is available for the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

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

HKAS27 has been revised to require a change in the ownership interest of a subsidiary to be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. It must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

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

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

An associate

An associate is an entity, not being a subsidiary of a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The result of an associate is included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in an associate is treated as a non-current asset and stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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 revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

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

Buildings	5%
Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement 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 buildings and plant 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 or investment properties when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property

An investment property is interest in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of an investment property are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets

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

Patents and licences

Purchased patents and licences are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to five years.

Research and development costs

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

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

Product development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, 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 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.

Leases

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

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 the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When such financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments 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 six months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Interest-bearing loans and borrowings

All loans and borrowings are initially stated at the fair value less directly attributable transaction costs and 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. The related interest expense is recognised within "finance cost" in the income statement.

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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 is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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

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

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

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

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

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

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

- in respect of deductible temporary differences associated with 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

Government grants and subsidies

Government grants and subsidies from the government authorities are recognised at their fair value where there is reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy on a systematic basis to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

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:

(i) from the sales of goods, 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;

(ii) from the rendering of services associated with goods sold, upon completion of such services;

(iii) rental income, on a time proportion basis over the lease terms;

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

(v) government grants and subsidies, when there is a reasonable assurance that the grants and subsidies will be received and all attaching conditions will be complied with; and

(vi) Dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using a binomial option pricing model, further details of which are given in note 33. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Retirement benefit scheme

The Company, Yulong Infotech Inc. ("YII") and Digital Tech Inc. ("DTI") have not participated in any retirement benefits scheme since the dates of their establishment.

The employees of Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad Software"), Dongguan Yulong Computer Telecommunications Scientific Co., Ltd. ("Dongguan Yulong") and Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad Software), the Group's subsidiaries which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their 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 recognised in the income statement of the year in which they are incurred.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

The functional currency of subsidiaries in Mainland China is RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rate ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are included in the exchange fluctuation reserve.

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

Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing a particular type of products or services (a business segment), or in providing products or services within a particular economic environment (a geographical segment). Each segment is subject to risks and rewards that are different from those of the other segments. During the year, over 90% of the Group's revenue and contribution to the operating profit were derived from the production and sale of wireless terminals. Therefore, no business segment analysis has been presented. Also, over 90% of the Group's revenue was derived from customers in the PRC and over 90% of the Group's assets are located in the PRC. Therefore, no geographical segment analysis has been presented.

3. SIGNIFICANT ACCOUNTING ESTIMATE

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

3. SIGNIFICANT ACCOUNTING ESTIMATE (CONTINUED)

Judgement

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

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operation leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2007, the best estimate of the carrying amount of capitalised product development costs was HK$20,399,000 (2006: HK$8,405,000) (note 16).

4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	2007	2006
	HK$'000	HK$'000
Revenue		
Sale of wireless system solutions and wireless terminals	**1,277,663**	640,855
Other income		
Bank interest income	**1,773**	1,811
Government grants and subsidies*	**60,870**	14,426
Sundry income	**1,856**	1,099
	64,499	17,336
	1,342,162	658,191

* The amount mainly represented a value-added tax ("VAT") refund from a tax bureau and government grants received from a finance bureau to support the Group in its research and development activities.

5. PROFIT BEFORE TAX

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

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold		**756,350**	400,859
Depreciation	13	**10,438**	4,830
Amortisation of patents and licences*	16	**9,433**	7,242
Recognition of prepaid land lease payments	15	**298**	255
Research and development costs:			
Product development costs amortised*	16	**3,224**	3,234
Current year expenditure		**21,903**	8,946
		25,127	12,180
Operating lease rental		**4,472**	1,616
Provision for trade receivables		**5,367**	2,337
Loss on disposal of items of property, plant and equipment		**1**	943
Auditors' remuneration		**2,052**	1,637
Staff costs (including directors' and senior executives' emoluments (note 7)):			
Salaries and wages		**122,522**	60,962
Staff welfare expenses		**4,344**	1,736
Pension scheme contributions		**13,392**	3,062
Equity-settled share option expense		**7,007**	4,736
Total staff costs		**147,265**	70,496
Product warranty provision		**24,961**	3,961
Foreign exchange differences, net		**172**	78
Bank interest income		**(1,773)**	(1,811)

* The amortisation of patents and licences and product development costs for the year is included in "Administrative expenses" on the face of the consolidated income statement.

6. FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Interest on:		
Bank loans wholly repayable within one year	**9,169**	6,056
Bank loans wholly repayable within five years	**7,085**	35
Bills payable	**2,416**	3,364
Less: Interest capitalised	**(7,085)**	—
	11,585	9,455

7. DIRECTORS' REMUNERATION

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

	Group	
	2007	2006
	HK$'000	HK$'000
Fees	**337**	337
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**2,462**	1,178
Pension scheme contributions	**6**	5
	2,468	1,183
	2,805	1,520

(a) Independent non-executive directors

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

	2007	2006
	HK$'000	HK$'000
Mr. Xie Weixin	**—**	—
Dr. Huang Dazhan	**120**	120
Mr. Chan King Chung	**100**	100
Mr. Yang Xianzu	**117**	117
	337	337

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and non-executive directors

2007	**Salaries, allowances and benefits in kind HK$'000**	**Pension scheme contributions HK$'000**	**Total remuneration HK$'000**
Executive directors:			
Mr. Guo Deying	**1,230**	**—**	**1,230**
Mr. Jiang Chao	**616**	**5**	**621**
Non-executive directors:			
Ms. Ma Dehui	**—**	**—**	**—**
Ms. Yang Xiao	**616**	**1**	**617**
	2,462	**6**	**2,468**

7. DIRECTORS' REMUNERATION (CONTINUED)

2006	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:			
Mr. Guo Deying	749	—	749
Mr. Jiang Chao	166	5	171
Non-executive directors:			
Ms. Ma Dehui	—	—	—
Ms. Yang Xiao	263	—	263
	1,178	5	1,183

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2006: two) non-director and highest paid employees for the year are as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Salaries, allowances and benefits in kind	**616**	312
Employee share option benefits	**204**	150
Pension scheme contributions	**10**	5
	830	467

The remuneration of both non-director and highest paid employees fell within the band of nil to HK$1,000,000.

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

9. TAX

No provision for Hong Kong profits tax has been made (2006: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 HK$'000	2006 HK$'000
Group:		
Current year provision:		
Hong Kong	**–**	–
Mainland China	**–**	–
Total tax charge for the year	**–**	–

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

	2007 HK$'000	2006 HK$'000
Profit before tax	**167,520**	53,684
Tax at the applicable tax rate (2007: 15%, 2006: 15%)	**25,128**	8,053
Profit attributable to an associate	**(5)**	–
Tax losses not recognised	**15,477**	4,649
Tax exemption/relief	**(40,600)**	(12,702)
Tax charge at the Group's effective rate (2007: Nil, 2006: Nil)	**–**	–

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Shenzhen Yulong, a wholly-owned subsidiary of the Company operating in Mainland China, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from the corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996. An income tax rate of 15% was applied for the year ended 31 December 2007. No provision for taxation has been made as Shenzhen Yulong suffered a loss for the year.

Shenzhen Coolpad Software was set up on 7 March 2006 and commenced operations in September 2006. Shenzhen Coolpad Software also enjoyed an exemption from corporation income tax for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following three years. Since the tax holiday of Shenzhen Coolpad Software commenced in 2006 and the current year was the second profitable year, no provision for income tax was needed in the current year.

9. TAX (CONTINUED)

Dongguan Yulong was set up on 3 November 2006. There were no operations conducted by Dongguan Yulong as at 31 December 2007.

Xi'an Coolpad Software was set up on 2 November 2007. There were no operations conducted by Xi'an Coolpad Software as at 31 December 2007.

10. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of HK$32,208,000 (2006: a loss of HK$744,000) which has been dealt with in the financial statements of the Company (note 34).

11. DIVIDENDS

	Notes	**2007 HK$'000**	2006 HK$'000
Difference between the proposed final 2006 dividend and the actual dividend paid	(a)	**169**	—
Interim — HK$0.005 (2006: HK$0.0025 (restated)) per ordinary share		**10,115**	4,982
Proposed final dividend — Nil (2006: HK$0.0075 (restated)) per ordinary share		**—**	14,957
		10,284	19,939

(a) Certain share options were exercised during the period between the dividend proposal and the actual dividend payment. Accordingly, the number of shares eligible for dividend payment increased, resulting in a difference in dividends paid in 2007.

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

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

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of 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 the dilutive potential ordinary shares into ordinary shares.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (CONTINUED)

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

	2007 HK$'000	2006 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	**167,520**	53,684

	Number of shares	
Shares	**2007**	2006 (Restated)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,011,069,545**	1,989,798,926
Effect of dilution — weighted average number of ordinary shares:		
Share options	**89,345,331**	48,382,419
	2,100,414,876	2,038,181,345

The Group granted bonus shares on the basis of one bonus share for every one ordinary share at a par value of HK$0.01 each to shareholders whose names appeared on the register of members on 22 May 2007 and then on the basis of one bonus share for every one ordinary share at a par value of HK$0.01 each to shareholders whose names appeared on the register of members on 8 October 2007 during the year. The number of share for the year 2006 was restated to reflect the issue of bonus shares.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2007						
Cost or valuation:						
At 1 January 2007	37,329	2,219	26,824	3,986	77,081	147,439
Transfers to investment properties (note 14)	(21,078)	–	–	–	–	(21,078)
Transfers	121,054	–	224	–	(121,278)	–
Additions	–	425	25,255	1,149	175,284	202,113
Surplus on revaluation (note 34)	31,095	–	–	–	–	31,095
Write-back of revaluation	(2,020)	–	–	–	–	(2,020)
Disposal	–	–	(2,309)	(4)	–	(2,313)
Exchange realignment	2,756	164	1,980	295	5,691	10,886
At 31 December 2007	169,136	2,808	51,974	5,426	136,778	366,122
Accumulated depreciation:						
At 1 January 2007	601	37	9,014	2,853	–	12,505
Transfers to investment properties (note 14)	(931)	–	–	–	–	(931)
Depreciation provided during the year	3,022	495	6,664	257	–	10,438
Write-back of revaluation	(2,020)	–	–	–	–	(2,020)
Disposal	–	–	(471)	(3)	–	(474)
Exchange realignment	45	3	665	211	–	924
At 31 December 2007	717	535	15,872	3,318	–	20,442
Net book value:						
At 31 December 2007	168,419	2,273	36,102	2,108	136,778	345,680
At 31 December 2006	36,728	2,182	17,810	1,133	77,081	134,934
Analysis of cost or valuation:						
At cost	1,576	2,808	51,974	5,426	136,778	198,562
At valuation	167,560	–	–	–	–	167,560
	169,136	2,808	51,974	5,426	136,778	366,122

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2006						
Cost or valuation:						
At 1 January 2006	31,021	–	18,942	3,763	–	53,726
Additions	–	2,219	14,130	400	77,081	93,830
Surplus on revaluation (note 34)	8,339	–	–	–	–	8,339
Write-back of revaluation	(1,675)	–	–	–	–	(1,675)
Disposal	(1,463)	–	(6,922)	(310)	–	(8,695)
Exchange realignment	1,107	–	674	133	–	1,914
At 31 December 2006	37,329	2,219	26,824	3,986	77,081	147,439
Accumulated depreciation:						
At 1 January 2006	786	–	11,216	2,629	–	14,631
Depreciation provided during the year	1,810	37	2,832	151	–	4,830
Write-back of revaluation	(1,675)	–	–	–	–	(1,675)
Disposal	(348)	–	(5,434)	(20)	–	(5,802)
Exchange realignment	28	–	400	93	–	521
At 31 December 2006	601	37	9,014	2,853	–	12,505
Net book value:						
At 31 December 2006	36,728	2,182	17,810	1,133	77,081	134,934
At 31 December 2005	30,235	–	7,726	1,134	–	39,095
Analysis of cost or valuation:						
At cost	1,468	2,219	26,824	3,986	77,081	111,578
At valuation	35,861	–	–	–	–	35,861
	37,329	2,219	26,824	3,986	77,081	147,439

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The office buildings of the Group located in Tian'an Cyber Park, Shenzhen have seven units in total. Four units were transferred to investment properties at the end of 2007. These units were revalued on an open market, existing use basis on 31 December 2007 by Debenham Tie Leung Limited, an independent firm of professionally qualified valuers, at HK$28,917,000 (2006: HK$19,628,000) (note 14).

The other three units, which are self-used, were revalued on an open market, existing use basis on 31 December 2007 by Debenham Tie Leung Limited, an independent firm of professionally qualified valuers, at HK$23,913,000 (31 December 2006: HK$16,233,000). A surplus of HK$8,048,000 (2006: HK$3,775,000), which represented the excess of the revalued amount over the then carrying value of the buildings, on an individual asset basis, has been credited to the fixed asset revaluation reserve (note 34).

Had the Group's office buildings at the Tian'an Cyber Park been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$5,952,000 (2006: HK$13,148,000).

The Group acquired a piece of land located at the Hi-Tech Industrial Park (North), Nanshan District, Shenzhen and newly constructed the Coolpad Information Park. Two buildings located in Coolpad Information Park, which were completed this year, were revalued on an open market, existing use basis on 31 December 2007 by Debenham Tie Leung Limited, an independent firm of professionally qualified valuers, at HK$143,647,000. A surplus of HK$23,047,000, which represented the excess of the revalued amount over the then carrying value of the buildings, on an individual asset basis, has been credited to the fixed asset revaluation reserve (note 34).

Had the Group's office buildings at the Coolpad Information Park been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$117,405,000.

The dormitory of the Group is located in Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, the PRC, with a historical net book value of HK$865,000 as at 31 December 2007.

The furniture, fixtures and office equipment and motor vehicles were stated at cost less accumulated depreciation.

14. INVESTMENT PROPERTIES

	Group HK$'000
Carrying amount at 1 January 2007	—
Transfer from owner-occupied properties (note 13)	20,147
Revaluation surplus related with the transfer from owner-occupied properties (note 34)	8,770
Carrying amount at 31 December 2007	28,917

14. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties are situated in Mainland China and are held under medium term leases.

The Group's investment properties were revalued on 31 December 2007 by Debenham Tie Leung Limited, an independent firm of professionally qualified valuer, at HK$28,917,000 on an open market, existing use basis. A surplus of HK$8,770,000 (2006: HK$4,564,000), which was recorded in "Property, plant and equipment" in 2006, and represented the excess of the revalued amount over the then carrying value of the buildings upon the properties being transferred from owners-occupied properties in December 2007, on an individual asset basis, has been credited to the revaluation reserve. The investment properties are leased to third parties under operating leases. Further details are included in note 35 to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**11,875**	—
Additions during the year	**—**	12,130
Recognised during the year	**(298)**	(255)
Exchange realignment	**876**	—
Carrying amount at 31 December	**12,453**	11,875
Current portion included in prepayments, deposits and other receivables	**(298)**	(278)
Non-current portion	**12,155**	11,597

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

The leasehold land was pledged to secure a long term bank loan with the current portion amounting to HK$ 27,789,000 (2006: Nil) and the non-current portion amounting to HK$79,091,000 (2006: HK$99,532,000) granted to the Group. For the details of the Group's interest-bearing bank borrowings, please refer to note 30 to the financial statements.

16. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2007			
Cost:			
At 1 January 2007	**16,268**	**24,380**	**40,648**
Additions	**14,598**	**11,415**	**26,013**
Exchange realignment	**1,201**	**1,225**	**2,426**
At 31 December 2007	**32,067**	**37,020**	**69,087**
Accumulated amortisation:			
At 1 January 2007	**7,863**	**10,730**	**18,593**
Provided during the year	**3,224**	**9,433**	**12,657**
Exchange realignment	**581**	**591**	**1,172**
At 31 December 2007	**11,668**	**20,754**	**32,422**
Net book value:			
At 31 December 2007	**20,399**	**16,266**	**36,665**

Group

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2006			
Cost:			
At 1 January 2006	15,708	17,543	33,251
Additions	—	6,489	6,489
Exchange realignment	560	348	908
At 31 December 2006	16,268	24,380	40,648
Accumulated amortisation:			
At 1 January 2006	4,470	3,408	7,878
Provided during the year	3,234	7,242	10,476
Exchange realignment	159	80	239
At 31 December 2006	7,863	10,730	18,593
Net book value:			
At 31 December 2006	8,405	13,650	22,055

16. INTANGIBLE ASSETS (CONTINUED)

Company

	Patents and licences HK$'000
31 December 2007	
Cost:	
At 1 January 2007	7,780
Additions	—
At 31 December 2007	7,780
Accumulated amortisation:	
At 1 January 2007	2,723
Provided during the year	1,556
At 31 December 2007	4,279
Net book value:	
At 31 December 2007	3,501
At 31 December 2006	5,057

17. INTERESTS IN SUBSIDIARIES

	Company	
	2007 **HK$'000**	2006 HK$'000
Unlisted shares, at cost	**44,991**	44,991

The carrying values of the unlisted shares in subsidiaries approximate to their fair values.

The amounts due from subsidiaries included in the Company's current assets of HK$162,983,000 (2006: HK$173,709,000) are unsecured, interest-free and repayable on demand or within one year.

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yulong Infotech Inc.	BVI/Mainland China	Ordinary US$50,000	100	–	Investment holding
Digital Tech Inc.	BVI/Mainland China	Ordinary US$10	100	–	Investment holding
Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd.*	PRC/Mainland China	Paid-up RMB240,600,000 Registered RMB403,000,000	–	100	Developing, manufacturing and operating wireless equipment, handheld communications terminals and mobile data business system
Coolpad Software Tech (Shenzhen) Co., Ltd.*	PRC/Mainland China	Paid-up and Registered HK$10,000,000	–	100	Research development and sale of mobile telecommunications, computer and multimedia technologies
Dongguan Yulong Computer Telecommunications Scientific Co., Ltd.**	PRC/Mainland China	Paid-up RMB30,700,616 Registered RMB120,000,000	–	100	Research, development and design of handheld communications terminals and related technologies on telecommunications service platform
Xi'an Coolpad Software Tech Co., Ltd.**	PRC/Mainland China	Paid-up RMB8,000,000 Registered RMB40,000,000	–	100	Research, development and sale of telecommunications related technologies

* Shenzhen Yulong and Shenzhen Coolpad Software are registered as a wholly-foreign-owned enterprises under PRC law.

** Dongguan Yulong and Xi'an Coolpad Software are registered as a co-operative joint venture under PRC law.

18. INTERESTS IN AN ASSOCIATE

	Group 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**8,583**	–

The carrying value of the interest in an associate approximate to its fair value.

Particulars of the associate are as follows:

Company	Place of incorporation/ registration and operations	Issued and fully paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shenzhen Tendbloom Information Technology Co., Ltd.	PRC/Mainland China	Paid-up and registered RMB32,000,000	–	25	Research, development and sale of telecommunications related technologies

The above investment in an associate is indirectly held by the Company through a wholly-owned subsidiary.

The following table illustrates the summarised financial information of the Group's associate:

	2007 HK$'000
Assets	**35,357**
Liabilities	**(1,026)**
Revenues	**1,539**
Profit	**124**

19. INVENTORIES

	Group 2007 HK$'000	2006 HK$'000
Raw materials	**135,989**	79,983
Work in progress	**60,594**	147,035
Finished goods	**92,103**	21,288
	288,686	248,306

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months and may be extended to a longer credit term of four to six months for customers with long term business relationship and good repayment history. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months	**167,740**	154,148
4 to 6 months	**811**	8,799
7 to 12 months	**141**	1,739
1 to 2 years	**2,006**	6,670
More than 2 years	**9,081**	2,411
	179,779	173,767
Less: Provision	**(11,087)**	(5,720)
	168,692	168,047

The carrying amounts of trade receivables approximate to their fair values.

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

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**5,720**	3,383
Impairment losses recognised (note 5)	**5,367**	2,337
	11,087	5,720

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$11,087,000 (2006: HK$9,039,000) with a carrying amount of HK$11,087,000 (2006: HK$9,081,000). The Group does not hold any collateral or other credit enhancements over these balances.

20. TRADE RECEIVABLES (CONTINUED)

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

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**167,740**	154,148
More than 3 months past due	**952**	10,538
	168,692	164,686

Receivables that were neither past due nor impaired relate to a large number of 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. BILLS RECEIVABLE

An aged analysis of the bills receivable as at the balance sheet date, based on the issue date, is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**40,080**	–	**–**	–

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**40,080**	–	**–**	–

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**144,009**	243,512	**—**	—
Deposits and other receivables	**46,982**	65,379	**26**	11
Subsidy receivables	**3,140**	—	**—**	—
	194,131	308,891	**26**	11

The balance of prepayments mainly represented prepayments to suppliers for the purchase of raw materials.

The aged analysis of the prepayments, deposits and other receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**194,131**	308,891	**26**	11

Prepayments, deposits and other receivables that were neither past due nor impaired relate to a large number of diversified suppliers and third parties for whom there was no recent history of default.

23. AMOUNTS DUE FROM/TO DIRECTORS

Particulars of the amounts due from/to directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Amounts due from directors

	31 December 2007	**Maximum amount outstanding during 2007**	**1 January 2007**
	HK$'000	**HK$'000**	**HK$'000**
Mr. Guo Deying	**47**	**911**	**591**
Mr. Jiang Chao	**55**	**512**	**—**
Ms. Yang Xiao	**32**	**161**	**—**
Total	**134**		**591**

23. AMOUNTS DUE FROM/TO DIRECTORS

Group (continued)

Amounts due to a director

	31 December 2007 HK$'000	Maximum amount outstanding during 2007 HK$'000	1 January 2007 HK$'000
Ms. Yang Xiao	–	–	17

Company

Amounts due to a director

	31 December 2007 HK$'000	Maximum amount outstanding during 2007 HK$'000	1 January 2007 HK$'000
Mr. Guo Deying	–	1,390	1,390

The amounts due from directors mainly represented advances granted to directors for business trips. The amounts were unsecured, interest-free and fully settled in March 2008.

24. DUE TO A RELATED COMPANY

The balance due to a related company as at 31 December 2006 mainly represented a rental charge payable for warehouse facilities, which was unsecured, interest-free and had no fixed terms of repayment. The amount due to a related company was fully settled in March 2007.

25. DUE TO AN ASSOCIATE

The balance due to an associate is non-trade in nature, unsecured, interest-free and repayable on demand. The amount due to an associate was fully settled in March 2008.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**86,090**	83,439	**14,111**	2,255
Time deposits	**34,336**	44,813	**20,134**	5,000
	120,426	128,252	**34,245**	7,255
Less: Pledged time deposits:				
Pledged for bills payable	**(9,661)**	(39,813)	**—**	—
Pledged for letters of credit	**(19,543)**	(5,000)	**(15,001)**	(5,000)
	(29,204)	(44,813)	**(15,001)**	(5,000)
Cash and cash equivalents	**91,222**	83,439	**19,244**	2,255

As at 31 December 2007, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$60,831,000 (2006: HK$120,874,000). 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 foreign currencies through banks authorised to conduct foreign exchange business.

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

27. TRADE PAYABLES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months	**73,406**	56,788
4 to 6 months	**4,156**	2,069
7 to 12 months	**929**	552
More than 1 year	**9,388**	1,680
	87,879	61,089

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

28. BILLS PAYABLE

An aged analysis of the bills payable as at the balance sheet date, based on the issue date, is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**36,431**	46,150	**—**	5,121
4 to 6 months	**—**	39,813	**—**	—
	36,431	85,963	**—**	5,121

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other payables	(a)	**137,170**	179,757	**—**	—
Accruals		**20,185**	9,339	**295**	85
		157,355	189,096	**295**	85

Other payables and accruals are non-interest-bearing and have an average term of three months.

29. OTHER PAYABLES AND ACCRUALS (CONTINUED)

(a) The movements in product warranty provision are as follows:

	Group HK$'000
At 1 January 2007	—
Additional provision	24,961
Amounts utilised during the year	(18,938)
Exchange realignment	1,041
At 31 December 2007	7,064

The Group provides one-year warranties to its customers on its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties 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.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group 2007 HK$'000	2006 HK$'000
Current			
Bank loans, wholly repayable within one year — secured	(a)-(c)	**71,102**	65,788
Bank loans, wholly repayable within one year — unsecured	(d)-(g)	**112,224**	71,663
Other borrowing, wholly repayable within one year	(h)	**4,275**	—
		187,601	137,451
Non-current			
Bank loan — secured	(i)	**79,091**	99,532
		266,692	236,983

	Note	Company 2007 HK$'000	2006 HK$'000
Current			
Bank loan, wholly repayable within one year — secured	(c)	**2,750**	6,069

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

The bank loans as at 31 December 2007 represented the following borrowings.

(a) The Group's current portion of a long term bank loan amounting to HK$27,789,000 (equivalent to RMB26,000,000), which is secured by the Group's leasehold land with a net book value of approximately HK$12,155,000 as at 31 December 2007, bears interest at an annual rate of 6.9% and is repayable within one year. (note 15).

(b) The Group's bank loan of HK$40,563,000 (equivalent to US$5,195,000), which is secured by pledged time deposits of HK$3,555,000 under a letter of credit facility, bears interest at annual rates ranging from 7.39% to 7.47% and is repayable within 120 days.

(c) The Company's bank loan of HK$2,750,000 (equivalent to USD$353,000), which is secured by pledged time deposits of HK$3,000,000 under a letter of credit facility, bears interest at annual rate of 6.56% and is repayable within 120 days.

(d) The Group's bank loans of HK$58,784,000 (equivalent to RMB55,000,000), which is guaranteed by the Company, bears interest at annual rates ranging from 6.12% to 6.57% and is repayable one year.

(e) The Group's bank loan of HK$21,376,000 (equivalent to RMB20,000,000), which is guaranteed by the Group's directors, Mr. Guo Deying and Mr. Jiang Chao, bears interest at an annual rate of 6.03% and is repayable within six months.

(f) The Group's bank loan of HK$21,376,000 (equivalent to RMB20,000,000) at an annual interest rate of 7.29%, which is guaranteed by Shenzhen Small and Medium Business Guarantee Centre which acts as a guarantor when small and medium businesses need financial support from banks or other borrowers. Such loan is repayable within one year.

(g) The Group's bank loan of HK$10,688,000 (equivalent to RMB10,000,000) which is guaranteed by the Company, bears interest at an annual rate of 6.48% and is repayable within six months.

(h) The Group's bank loan of HK$4,275,000 (equivalent to RMB4,000,000) which is interest free and is guaranteed by Shenzhen High Technology Investment Guarantee Co., Limited. Such loan was released by Shenzhen Futian District Science and Technology Bureau as a finance support for Group's Coolpad 858 project and is repayable within one year.

(i) The Group's non-current portion of a long term bank loan amounting to HK$79,091,000 (equivalent to RMB 74,000,000), which is secured by the Group's leasehold land with a net book value of approximately HK$12,155,000 as at 31 December 2007 and bears interest at a floating rate (note 15). The Group is subject to an annual interest rate of 6.48% before the first repayable date which is 31 December 2008. Such bank loan is repayable in four instalments, i.e., RMB26,000,000 (included in the current portion of the bank loan) due on 31 December 2008, RMB28,000,000 due on 31 December 2009, RMB24,000,000 due on 31 December 2010 and RMB22,000,000 due on 31 December 2011. The interest rate of the long term bank loan during the above repayment periods will be adjusted based on the benchmark interest rate determined by the People's Bank of China.

The directors estimate that the fair values of the Group's borrowings by discounting their future cash flows at the market rate approximate to their carrying amounts.

31. DEFERRED TAX

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

Group	Revaluation of buildings HK$'000
At 1 January 2007	3,407
Deferred tax debited to equity during the year (note 34)	8,334
Exchange differences	251
At 31 December 2007	11,992

Group	Revaluation of buildings HK$'000
At 1 January 2006	2,035
Deferred tax debited to equity during the year (note 34)	1,300
Exchange differences	72
At 31 December 2007	3,407

Shenzhen Yulong had tax losses of HK$85,460,000 in the current year which will be expired in 2012. Deferred tax assets should be recognised for the unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. The management of the Group is not sure whether Shenzhen Yulong has the ability in generating future taxable profit to offset against the unused tax credits. Therefore, no deferred tax assets were recognised.

32. SHARE CAPITAL

	2007 HK$'000	2006 HK$'000 Restated
Authorised: 4,000,000,000 (2006: 4,000,000,000 (restated)) ordinary shares of HK$0.01 each	**40,000**	40,000
Issued and fully paid: 2,022,976,000 (2006: 1,994,240,000 (restated)) ordinary shares of HK$0.01 each	**20,230**	19,942

32. SHARE CAPITAL (CONTINUED)

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

(a) The subscription rights attached to 2,544,000 share options were exercised at the subscription price of HK$0.87 per share, resulting in the issue of 2,544,000 shares for a total cash consideration, before expenses, of HK$2,213,280.

(b) The subscription rights attached to 3,088,000 share options were exercised at the subscription price of HK$1.846 per share, resulting in the issue of 3,088,000 shares for a total cash consideration, before expenses, of HK$5,700,448.

(c) The subscription rights attached to 2,252,000 share options were exercised at the subscription price of HK$0.923 per share, resulting in the issue of 2,252,000 shares for a total cash consideration, before expenses, of HK$2,078,596.

(d) The subscription rights attached to 840,000 share options were exercised at the subscription price of HK$0.435 per share, resulting in the issue of 840,000 shares for a total cash consideration, before expenses, of HK$365,400.

(e) The subscription rights attached to 24,000 share options were exercised at the subscription price of HK$0.4615 per share, resulting in the issue of 24,000 shares for a total cash consideration, before expenses, of HK$11,076.

(f) 504,192,000 bonus shares were granted for the ordinary shares held by the then existing shareholders on the basis of one bonus share for one ordinary share in issue on 22 May 2007, which were approved by the shareholders at the annual general meeting of the Company held on 26 May 2007.

(g) 1,011,476,000 bonus shares were granted for the ordinary shares held by the then existing shareholders on the basis of one bonus share for one ordinary share in issue held on 8 October 2007, which were approved by the shareholders at the special general meeting of the Company held on 8 October 2007.

32. SHARE CAPITAL (CONTINUED)

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

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account (note 34) HK$'000	Total HK$'000
At 1 January 2006		449,000,000	4,490	141,758	146,248
Share options exercised		9,560,000	96	7,372	7,468
Transfer from share options reserve		—	—	1,859	1,859
New issue		40,000,000	400	48,400	48,800
Share issue expenses		—	—	(2,768)	(2,768)
At 31 December 2006 and 1 January 2007		498,560,000	4,986	196,621	201,607
Share options exercised	(a) to (e)	8,748,000	87	10,282	10,369
Transfer from share options reserve		—	—	3,012	3,012
Bonus shares issued	(f) and (g)	1,515,668,000	15,157	(15,157)	—
At 31 December 2007		2,022,976,000	20,230	194,758	214,988

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on 21 November 2004, certain classes of participants (including employees, consultants, advisers, suppliers or customers of the Group) may be granted options to subscribe for the shares of the Company.

During the year, the Company granted options for the subscription of an aggregate of 19,676,000 shares pursuant to the terms of the Share Option Scheme, as follows:

On 18 September 2007, options for the subscription of 19,676,000 shares were granted to certain employees of the Group at an exercise price of HK$2.83 (adjusted upon completion of the second bonus issue: HK$1.415) per share, which are exercisable in the manner set out detailed below:

(i) as for options to subscribe for 1,500,000 shares held by three grantees of options for 500,000 shares each, such options are exercisable by each of the grantees:

  (a) in respect of options to subscribe for the first 128,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

  (b) in respect of options to subscribe for the further 124,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

  (c) in respect of options to subscribe for the further 124,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

  (d) in respect of options to subscribe for the last 124,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(ii) as for options to subscribe for 1,400,000 shares held by seven grantees of options for 200,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 52,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 52,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 48,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(iii) as for options to subscribe for 1,000,000 shares held by one grantee, such options are exercisable by the grantee:

(a) in respect of options to subscribe for the first 256,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 248,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 248,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 248,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(iv) as for options to subscribe for 4,000,000 shares held by one grantee, such options are exercisable by the grantee:

(a) in respect of options to subscribe for the first 1,000,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 1,000,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 1,000,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 1,000,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(v) as for options to subscribe for 4,320,000 shares held by 90 grantees of options for 48,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 12,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 12,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 12,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 12,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(vi) as for options to subscribe for 3,936,000 shares held by 41 grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 24,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 24,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(vii) as for options to subscribe for 1,200,000 shares held by four grantees of options for 300,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 76,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 76,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 76,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 72,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(viii) as for options to subscribe for 248,000 shares held by one grantee, they are exercisable by the grantee:

(a) in respect of options to subscribe for the first 64,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 64,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 60,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 60,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(ix) as for options to subscribe for 152,000 shares held by one grantee, they are exercisable by the grantee:

(a) in respect of options to subscribe for the first 40,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 40,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 36,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 36,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(x) as for options to subscribe for 1,728,000 shares held by nine grantees of options for 192,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the fifth anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 48,000 shares, at any time during the period commencing from the sixth anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

(xi) as for options to subscribe for 192,000 shares held by two grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 24,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the fifth anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 24,000 shares, at any time during the period commencing from the sixth anniversary up to (but not including) the date falling on the seventh anniversary from the date of acceptance of the grant;

A consideration of HK$1 is payable by the grantee upon acceptance of the grant. The closing price per share at 18 September 2007, being the date immediately before the date the options were granted, was HK$2.83 (adjusted upon completion of the second bonus issue: HK$1.415).

33. SHARE OPTION SCHEME (CONTINUED)

On 27 July 2006, options for the subscription of 14,752,000 shares were granted to certain employees of the Group at an exercise price of HK$1.846 per share, which are exercisable in the manner set out detailed below:

(i) as for options to subscribe for 4,000,000 shares held by two grantees of options for 2,000,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 500,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for the further 500,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 500,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 500,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(ii) as for options to subscribe for 1,488,000 shares held by three grantees of options for 496,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 124,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for the further 124,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 124,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 124,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(iii) as for options to subscribe for 2,496,000 shares held by 13 grantees of options for 192,000 shares each, such options are exercisable by each of the grantees:

(e) in respect of options to subscribe for the first 48,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(f) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(g) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(h) in respect of options to subscribe for the last 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(iv) as for options to subscribe for 4,608,000 shares held by 48 grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 24,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 24,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(v) as for options to subscribe for 960,000 shares held by 20 grantees of options for 48,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 12,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for the further 12,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 12,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 12,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(vi) as for options to subscribe for 768,000 shares held by four grantees of options for 192,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 48,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 48,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(vii) as for options to subscribe for 384,000 shares held by four grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 24,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 24,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 24,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(viii) as for options to subscribe for 48,000 shares held by one grantee, they are exercisable by the grantee:

(a) in respect of options to subscribe for the first 12,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for the further 12,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 12,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for the last 12,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

A consideration of HK$1 is payable by the grantee upon acceptance of the grant. The closing price per share at 26 July 2006, being the date immediately before the date the options were granted, was HK$1.83.

33. SHARE OPTION SCHEME (CONTINUED)

During the year 2005, the Company granted options for the subscription of an aggregate of 40,000,000 shares pursuant to the terms of the Share Option Scheme, as follows:

(a) on 2 June 2005, options for the subscription of 10,000,000 shares were granted to certain employees and consultants of the Group which are exercisable during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the second anniversary thereof at an exercise price of HK$0.70 per share. A consideration of HK$1 is payable by the grantee upon acceptance of the grant. The closing price per share at 1 June 2005, being the date immediately before the date the options were granted, was HK$0.69;

(b) on 6 June 2005, options to subscribe for the subscription of 20,000,000 shares were granted to certain employees and consultants of the Group which are exercisable during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the third anniversary thereof at an exercise price of HK$0.70 per share. A consideration of HK$1 is payable by the grantee upon acceptance of the grant. The closing price per share as at 3 June 2005, being the date immediately before the date the options were granted, was HK$0.70.

(c) on 20 June 2005, options to subscribe for the subscription of 10,000,000 shares were granted to certain employees of the Group at an exercise price of HK$0.87 per share, which are exercisable in the manner as detailed below:

(i) as for options to subscribe for 1,000,000 shares held by two grantees of options for 500,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 128,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for the further 124,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 124,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and

(d) in respect of options to subscribe for the last 124,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

33. SHARE OPTION SCHEME (CONTINUED)

(ii) as for options to subscribe for 5,000,000 shares held by 25 grantees of options for 200,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for the first 52,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for the further 52,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and

(d) in respect of options to subscribe for the last 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and

(iii) as for options to subscribe for 4,000,000 shares, exercisable during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the third anniversary thereof.

A consideration of HK$1 is payable by the grantee upon acceptance of the grant. The closing price per share at 17 June 2005, being the date immediately before the date the options were granted, was HK$0.89.

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

	2007		2006 (Restated)	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.193**	**36,192**	0.18875	124,000
Exercised before the issue of first bonus shares	**1.405**	**(5,632)**	—	—
Issue of first bonus shares	**—**	**30,560**	—	—
Exercised before the issue of second bonus shares	**0.790**	**(3,092)**	—	—
Granted during the year	**1.415**	**19,676**	0.4615	59,008
Issue of second bonus shares	**—**	**77,704**	—	—
Exercised after the issue of second bonus shares	**0.4615**	**(24)**	0.19525	(38,240)
At 31 December	**0.569**	**155,384**	0.29825	144,768

33. SHARE OPTION SCHEME (CONTINUED)

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.36 (2006: HK$0.195).

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

2007

Number of options '000	Exercise price* HK$ per share	Exercise period
64,000	0.175	07–06–05 to 06–06–08
9,904	0.2175	28–06–05 to 27–06–09
37,712	0.4615	27–07–06 to 26–07–10
4,416	0.4615	27–07–07 to 26–07–11
27,512	1.415	18–09–08 to 17–09–12
11,840	1.415	18–09–10 to 17–09–14
155,384		

2006 (Restated)

Number of options '000	Exercise price* HK$ per share	Exercise period
64,000	0.175	07–06–05 to 06–06–08
21,760	0.2175	28–06–05 to 27–06–09
54,208	0.4615	27–07–06 to 26–07–10
4,800	0.4615	27–07–07 to 26–07–11
144,768		

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

The fair value of the share options granted during the year was HK$26,938,135, of which the Group recognised a share option expense of HK$7,007,000 during the year ended 31 December 2007.

33. SHARE OPTION SCHEME (CONTINUED)

The fair value of the equity-settled share options granted during the year was calculated by an external professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK$26,938,135 using the binomial option pricing model as at the date of grant of the options, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2007	2006
Dividend yield (HK$)	**0.005 to 0.015**	0.0025 to 0.005
Expected volatility (%)	**65.85**	56.94
Historical volatility (%)	**65.85**	56.94
Risk-free interest rate (%)	**3.898 to 4.123**	4.33 to 4.51
Expected life of options (year)	**3 to 6.5**	2 to 4
Weighted average share price (HK$)	**1.415**	0.195

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

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

The 8,748,000 share options exercised during the year resulted in the issue of 8,748,000 ordinary shares of the Company and new share capital of HK$87,480 and share premium of HK$10,282,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the balance sheet date, the Company had 155,384,000 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 155,384,000 additional ordinary shares of the Company and additional share capital of HK$1,553,840 and share premium of HK$86,925,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 155,384,000 share options outstanding under the Share Option Scheme, which represented approximately 7.68% of the Company's shares in issue as at that date.

34. RESERVES

Group

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a) and (b)) HK$'000	Revaluation reserves HK$'000	Statutory reserve (Note (c)) HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2006		141,758	390	11,379	2,976	3,741	4,473	134,525	299,242
Issue of shares	32	55,772	—	—	—	—	—	—	55,772
Share issue expenses	32	(2,768)	—	—	—	—	—	—	(2,768)
Transfer from share options reserve	32	1,859	—	—	—	(1,859)	—	—	—
Surplus on revaluation of buildings	13	—	—	8,339	—	—	—	—	8,339
Deferred tax on revaluation reserve	31	—	—	(1,300)	—	—	—	—	(1,300)
Equity—settled share option arrangements		—	—	—	—	4,736	—	—	4,736
Profit for the year		—	—	—	—	—	—	53,684	53,684
Exchange realignment		—	—	—	—	—	13,955	—	13,955
Statutory reserves		—	—	—	3,513	—	—	(3,513)	—
Interim 2006 dividend	11	—	—	—	—	—	—	(4,982)	(4,982)
Proposed final 2006 dividend	11	—	—	—	—	—	—	(14,957)	(14,957)
At 31 December 2006 and 1 January 2007		196,621	390	18,418	6,489	6,618	18,428	164,757	411,721
Issue of shares	32	10,282	—	—	—	—	—	—	10,282
Transfer from share options reserve	32	3,012	—	—	—	(3,012)	—	—	—
Bonus shares issued	32	(15,157)	—	—	—	—	—	—	(15,157)
Surplus on revaluation of buildings	13&14	—	—	39,865	—	—	—	—	39,865
Deferred tax on revaluation reserve	31	—	—	(8,334)	—	—	—	—	(8,334)
Equity—settled share option arrangements		—	—	—	—	7,007	—	—	7,007
Profit for the year		—	—	—	—	—	—	167,520	167,520
Exchange realignment		—	—	—	—	—	38,500	—	38,500
Statutory reserves		—	—	—	35,333	—	—	(35,333)	—
Interim 2007 dividend	11	—	—	—	—	—	—	(10,115)	(10,115)
Difference between the proposed final 2006 dividend and the actual dividend paid	11	—	—	—	—	—	—	(169)	(169)
Proposed final 2007 dividend	11	—	—	—	—	—	—	—	—
At 31 December 2007		194,758	390	49,949	41,822	10,613	56,928	286,660	641,120

34. RESERVES (CONTINUED)

Company

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a), (b)) HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006		141,758	44,992	3,741	388	(29,521)	161,358
Issue of shares	32	55,772	–	–	–	–	55,772
Share issue expenses	32	(2,768)	–	–	–	–	(2,768)
Transfer from share options reserve	32	1,859	–	(1,859)	–	–	–
Equity-settled share option arrangements	10	–	–	4,736	–	–	4,736
Loss for the year		–	–	–	–	(744)	(744)
Exchange realignment		–	–	–	–	–	–
Interim 2006 dividend	11	–	–	–	–	(4,982)	(4,982)
Proposed final 2006 dividend	11	–	–	–	–	(14,957)	(14,957)
At 31 December 2006 and 1 January 2007		196,621	44,992	6,618	388	(50,204)	198,415
Issue of shares	32	10,282	–	–	–	–	10,282
Transfer from share options reserve	32	3,012	–	(3,012)	–	–	–
Bonus shares issued	33	(15,157)	–	–	–	–	(15,157)
Equity-settled share option arrangements	10	–	–	7,007	–	–	7,007
Profit for the year		–	–	–	–	32,208	32,208
Exchange realignment		–	–	–	–	–	–
Interim 2007 dividend	11	–	–	–	–	(10,115)	(10,115)
Difference between the proposed final 2006 dividend and the actual dividend paid	11	–	–	–	–	(169)	(169)
Proposed final 2007 dividend	11	–	–	–	–	–	–
At 31 December 2007		194,758	44,992	10,613	388	(28,280)	222,471

34. RESERVES (CONTINUED)

Notes:

(a) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(b) The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group reorganisation on 31 July 2003 over the nominal value of the Company's shares issued in exchange therefore. The contributed surplus of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefore.

(c) In accordance with the PRC regulations, each of the PRC subsidiaries is required to allocate 10% of its profit after tax, as determined under the PRC accounting regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. Part of the statutory reserve may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

35. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007 **HK$'000**	2006 HK$'000
Within one year	**1,333**	—
In the second to fifth years, inclusive	**1,226**	—
	2,559	—

36. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(b) As lessee

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for lease terms ranging from two to five years. The total future minimum lease payments under non-cancellable operating leases committed at the respective balance sheet dates to be made by the Group were as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**5,387**	3,269
In the second to fifth years, inclusive	**10,459**	11,060
	15,846	14,329

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for:		
Patents and licences	**79,263**	66,168
Capital injection	**—**	120,000
Plant expansion	**85,292**	36,979
	164,555	223,147

As at the balance sheet date, the Company had no significant capital commitments.

38. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transaction with a related party in 2006:

	2007	2006
	HK$'000	HK$'000
Rental expense to a related company	**–**	110

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

	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,126**	2,424
Pension scheme contributions	**37**	31
Employee share option benefits	**1,269**	922
Total compensation paid to key management personnel	**5,432**	3,377

Further details of directors' emoluments are included in note 7 to the financial statements.

(c) **Guarantee granted by directors**

The Group's bank loan of HK$21,376,000 (equivalent to RMB20,000,000) is guaranteed by the Group's directors, Mr. Guo Deying and Mr. Jiang Chao, which bears interest at an annual rate of 6.03% and is repayable within six months.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2007
Group

Financial assets

	Loans and receivables HK$'000
Trade receivables	168,692
Bills receivable	40,008
Other receivables	46,982
Pledge time deposits	29,204
Cash and cash equivalents	91,222
	376,180

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	87,879
Bills payable	36,431
Other payables and accruals	59,369
Interest-bearing bank and other borrowings	266,692
Due to an associate	7,386
	457,757

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2006
Group

Financial assets

	Loans and receivables HK$'000
Trade receivables	168,047
Other receivables	65,379
Pledge time deposits	44,813
Cash and cash equivalents	83,439
	361,678

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	61,089
Bills payable	85,963
Other payables and accruals	45,898
Interest-bearing bank and other borrowings	236,983
	429,933

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

Company

Financial assets

	2007 Loans and receivables HK$'000	2006 Loans and receivables HK$'000
Due from subsidiaries	**162,983**	173,709
Pledge time deposits	**15,001**	5,000
Cash and cash equivalents	**19,244**	2,255
	197,228	180,964

Financial liabilities

	2007 Financial liabilities at amortised cost HK$'000	2006 Financial liabilities at amortised cost HK$'000
Bills payable	**–**	5,121
Interest-bearing bank and other borrowings	**2,750**	6,069
	2,750	11,190

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The interest rates and terms of repayment of the Group's loans are disclosed in note 30.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings) and the Group's equity.

		Group	
	Increase/ (decrease) in basic point	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	HK$'000	HK$'000
2007			
Hong Kong Dollar	**1.16**	**1,190**	**1,190**
Hong Kong Dollar	**(1.16)**	**(1,190)**	**(1,190)**

All of the Group's long term debt obligations in 2006 had a fixed interest rate. Therefore, there was no such sensitivity analysis for 2006.

There was no long term debt obligation in the Company for both 2007 and 2006.

Foreign currency risk

As the Group's investment operations are located in Mainland China, the Group's balance sheet can be affected significantly by the movements in the HK$/RMB exchange rate. Since the exchange rates did not fluctuate significantly in prior years, the Group did not seek to hedge this exposure.

The Group has no transactional currency exposure as all sales and purchases are denominated in RMB, the functional currency of Shenzhen Yulong and Shenzhen Coolpad Software, which are the sale-generating units of the Group.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents 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 customer. At the balance date, the Group has certain concentrations of credit risk as 91% (2006: 86%) and 95% of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk from trade and other receivables are disclosed in notes 20 and 22 to the financial statements.

Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	–	117,060	70,541	79,091	–	266,692
Trade payables	40,165	47,714	–	–	–	87,879
Bills payable	–	36,431	–	–	–	36,431
Other payables and accruals	3,055	141,499	5,737	–	–	150,291
Due to an associate	7,386	–	–	–	–	7,386
	50,606	342,704	76,278	79,091	–	548,679

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows: (continued)

Group (Continued)

	2006					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	—	75,741	61,710	99,532	—	236,983
Trade payables	29,856	31,233	—	—	—	61,089
Bills payable	—	46,150	39,813	—	—	85,963
Other payables and accruals	3,055	181,379	4,662	—	—	189,096
Due to a related company	110	—	—	—	—	110
Due to a director	17	—	—	—	—	17
	33,038	334,503	106,185	99,532	—	573,258

Company

	2007					
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**over 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**—**	**2,750**	**—**	**—**	**—**	**2,750**
Other payables and accruals	**—**	**295**	**—**	**—**	**—**	**295**
	—	**3,045**	**—**	**—**	**—**	**3,045**

	2006					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	over 5 years HK$'000	Total HK$'000
Bills payable	—	5,121	—	—	—	5,121
Other payables and accruals	—	85	—	—	—	85
Interest-bearing bank and other borrowings	—	6,069	—			6,069
Due to a director	1,390	—	—	—	—	1,390
	1,390	11,275	—	—	—	12,665

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in 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 during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable, other payables and accruals, due to a related company, due to a director, due to an associate, less cash and cash equivalents. Capital represents equity attributable to equity holders of the Company. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007 **HK$'000**	2006 HK$'000
Interest-bearing bank and other borrowings	**266,692**	236,983
Trades payables	**87,879**	61,089
Bills payable	**36,431**	85,963
Other payables and accruals	**157,355**	189,096
Due to a related company	**—**	110
Due to a director	**—**	17
Due to an associate	**7,386**	—
Less: Cash and cash equivalents	**(91,222)**	(83,439)
Net debt	**464,521**	489,819
Equity attributable to equity holders of the Company	**661,350**	431,664
Capital and net debt	**1,125,871**	921,483
Gearing ratio	**41%**	53%

41. EVENT AFTER THE BALANCE SHEET DATE

On 5 March 2008, Dongguan Yulong signed an agreement with the Dongguan Land Exchange Centre to purchase the use right of a piece of land located in the Industrial Park of North Songshan Lake, Dongguan with an area of 109,469 square metres. The Group paid HK$47,990,000 on 26 March 2008 and the application for the certificate of land use right is in progress.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2008.