



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



## INTERIM REPORT 2008

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## 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” or the “Mainland China”). The company mainly provides its products for enterprises, governmental departments and telecommunications operators in the PRC.

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 in 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 smartphone (for the PRC’s telecommunications operators and other industry users).

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

The Group is committed to provide every single individual with 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 softwares.

# 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

Coolpad Information Harbor  
2<sup>nd</sup> Mengxi Road  
Hi-Tech Industrial Park (North)  
Nanshan District  
Shenzhen  
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1902  
Mass Mutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

## WEBSITE ADDRESS

[www.chinawireless.cn](http://www.chinawireless.cn)  
[www.irasia.com/listco/hk/chinawireless](http://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

## AUTHORIZED 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.  
China Merchants Bank Co., Ltd.  
Oversea-Chinese Banking Corporation Ltd.

## STOCK CODE

2369

## FINANCIAL HIGHLIGHTS

- The sales of the “Coolpad” smartphone was about 160,000 units for the six months ended 30 June 2008, as compared with 290,000 in the corresponding period of last year.
- For the six months ended 30 June 2008, the Group’s unaudited consolidated revenue amounted to HK\$441.3 million, representing a decrease of 41.5% as compared with HK\$753.8 million in the corresponding period in 2007.
- The Group’s gross profit margin expanded to 42.2% in the reporting period from 36.1% in the corresponding period last year. This was attributable to the Group’s long term commitment in research and development (“R&D”), to lower its production cost and its differentiated market strategy in the high-end smartphone.
- The Group recorded a loss of approximately HK\$49.3 million during the reporting period, while it achieved net profit of HK\$124.6 million in the corresponding period in 2007.
- Basic loss per share was approximately HK\$2.43 cents in the six months ended 30 June 2008, while basic earning per share was approximately HK\$6.23 cents in the corresponding period of last year.
- The board of the directors of the Company (the “Board”) does not recommend any payment of interim dividend for the six months ended 30 June 2008.

# MANAGEMENT DISCUSSION & ANALYSIS

## FINANCIAL REVIEW

### Revenue analyzed by product segments

A comparative breakdown of the significant revenue streams into the product segments is set forth in the following table for the period indicated:

Product Segments	The six months ended 30 June 2008		The six months ended 30 June 2007	
	Revenue HK\$'000	Percentage of Total Revenue	Revenue HK\$'000	Percentage of Total Revenue
<b>Smartphone</b>				
CDMA/GSM Dual-mode Smartphone	327,403	74.2%	586,668	77.9%
GSM/GSM Dual-mode Smartphone	85,138	19.3%	93,633	12.4%
TD-SCDMA/GSM Dual-mode Smartphone	15,375	3.5%	—	—
CDMA Single-mode Smartphone	8,160	1.8%	69,597	9.2%
<b>Subtotal</b>	<b>436,076</b>	<b>98.8%</b>	<b>749,898</b>	<b>99.5%</b>
<b>Other Products</b>	<b>5,239</b>	<b>1.2%</b>	<b>3,866</b>	<b>0.5%</b>
<b>Total</b>	<b>441,315</b>	<b>100.0%</b>	<b>753,764</b>	<b>100.0%</b>

In terms of the revenue mix, during the period under review, revenue from dual-mode smartphone accounted for 97% of the Group's total revenue, as compared with approximately 90% for the corresponding period in 2007. The reason for such increase was that the Group has mainly focused on researching and developing the medium and high-end dual-mode smartphone during the period under review. The Group also retained strong competitive advantages in the CDMA network, and during the period under review, the revenue from CDMA/GSM dual-mode smartphone accounted for 74.2% of the total revenue. The revenue from CDMA/GSM dual-mode smartphone decreased to approximately HK\$327.4 million, representing a decrease of 44.2%, as compared with HK\$586.7 million in the corresponding period of last year. The reason for the decrease is that the CDMA network operator had reduced the terminal's purchase from the Group since the restructuring of the Mainland China's telecommunications (the "Restructuring") took place in the first half year of 2008. The revenue percentage generated from GSM/GSM dual-mode smartphone segment to total revenue had a growth of about 6.9%, from 12.4% in six months ended 30 June 2007 to 19.3% in the period under review, despite the fact that the total revenue had decreased to HK\$85.1 million, representing a decrease of 9.1% as compared with HK\$93.6 million in the corresponding period of last year. The Group is still in the process of building up co-operation relations with other GSM network operators in order to establish its "Coolpad" brand recognition in this network, since its GSM-GSM dual-mode smartphone just began to be available to GSM network last year.

More importantly, the Group has launched its 3G business in the period under review. The Group is one of the first terminal providers to have the collective purchase from China Mobile Limited this year. The Group has successfully sold nearly 4,000 units of TD-SCDMA/GSM dual-mode smartphone, and recorded a revenue of about HK\$15.4 million since the commencement of TD-SCDMA network trial commercialization in ten cities of the PRC on 1 April 2008. The revenue from TD-SCDMA/GSM dual-mode smartphone accounted for 3.5% of the total revenue recorded during the period under review. The Group will continue to develop its TD-SCDMA/GSM smartphone business in the future as it is expected that the TD-SCDMA commercialization will promote largely in the PRC by its operator.

As at 30 June 2008, the revenue from CDMA single-mode smartphone decreased to about HK\$8.2 million representing about 1.8% total revenue from about HK\$69.6 million in the corresponding period of 2007. The significant decrease was because of the shift of the Group's business strategy to the dual-mode high-end smartphone market and the effect of the Restructuring.

The revenue from other products segment increased to approximately HK\$5.2 million, representing a growth of 35.5%, as compared with HK\$3.8 million of the same period of last year. It was due to the increase in the demand of the wireless system solution's service.

# MANAGEMENT DISCUSSION & ANALYSIS

## Gross Profit

Product Segment	The six months ended 30 June 2008		The six months ended 30 June 2007	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
<b>Smartphone</b>				
CDMA/GSM Dual-mode Smartphone	143,982	44.0%	217,041	37.0%
GSM/GSM Dual-mode Smartphone	30,280	35.6%	36,397	38.9%
TD-SCDMA/GSM Dual-mode Smartphone	7,717	50.2%	—	—
CDMA Single-mode Smartphone	2,295	28.1%	17,140	24.6%
<b>Subtotal</b>	<b>184,274</b>	<b>—</b>	<b>270,578</b>	<b>—</b>
<b>Other Products</b>	<b>2,026</b>	<b>38.7%</b>	<b>1,555</b>	<b>40.2%</b>
<b>Total</b>	<b>186,300</b>	<b>42.2%</b>	<b>272,133</b>	<b>36.1%</b>

The Group's gross profit decreased by 31.5% to HK\$186.3 million for the six months ended 30 June 2008, as compared with HK\$272.1 million in the corresponding period of previous year. However, the gross profit margin increased to 42.2%, representing a growth of 6.1%, compared with 36.1% in the first half of 2007. The gross profit margin remained high level, because the Group has implemented a series of differential competitive strategies ranging from brand orientation to mode of service and market exploitation, and has effectively lowered its production cost during these years.

## Selling and Distribution Costs

Selling and distribution costs increased by 80.2% from HK\$65.9 million for the six months ended 30 June 2007 to HK\$118.7 million in the first half of 2008. Meanwhile, the ratio for selling and distribution costs to sales increased significantly from 8.7% for the six months ended 30 June 2007 to 26.9% for the corresponding period of 2008. The significant increase of selling and distribution costs is primarily attributable to the Group's efforts on the establishment of the multi-distribution channels and the promotion of the "Coolpad" brand.

## Administrative Expenses

Administrative expenses increased by 53.7% from HK\$84.8 million representing 11.2% of total sales for the six months ended 30 June 2007 to HK\$130.3 million representing 29.5% of total sales of the corresponding period in 2008. The Group's decrease in the size of its operation and the increase in the expenses of R&D led to the increase of the administrative expenses, as well as the ratio of administrative expenses to total sales.

## Income Tax Expenses

For the six months ended 30 June 2008, the Group's profit tax payable by the Group is nil as the Group recorded no profit in the same period. In addition, according to the Enterprise Income Tax Law of the People's Republic of China which took effect from 1 January 2008, the income tax rate applicable to the Group this year was increased to 18% from 15% in 2007.

## Net Profit/Loss

For the six months ended 30 June 2008, the Group recorded a net loss of HK\$49.3 million. The loss was due to the huge decrease of sales and the increasing expenses for the expansion of our business.

## Liquidity and Financial Resources

For the six months ended 30 June 2008, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings.

As at 30 June 2008, the Group had cash and bank balances of HK\$155.9 million while it was HK\$120.4 million as at 31 December 2007.

# MANAGEMENT DISCUSSION & ANALYSIS

As at 30 June 2008, the Group's total assets amounted to HK\$1,310.8 million, compared with HK\$1,244.1 million as at 31 December 2007, whereas the Group's total liabilities was HK\$645.1 million as compared with HK\$582.8 million at 31 December 2007.

As at 30 June 2008, the Group had a gearing ratio of 49.2% (total debt over total assets) compared with 46.8% as at 31 December 2007, and a current ratio of 1.4 (current assets over current liabilities) compared with 1.7 as at 31 December 2007.

## Contingent Liabilities

As at 30 June 2008, the Group did not have any significant contingent liabilities.

## Pledge of Assets

As at 30 June 2008, a total amount of approximately HK\$50,300,000 of the Group's bank deposits was pledged to secure general bank borrowings as compared with HK\$29,204,000 as at 31 December 2007.

## BUSINESS ACTIVITIES

As one of the leading wireless data solutions providers and smartphone developers in the PRC, the Group researches, develops, and markets innovative products and provides customized solutions to meet the demands of various clients from various industries.

In the first half year of 2008, the Group proactively carried out various measures to consolidate its business and corporate structure, formulated precise business positioning and product strategies, as well as enhanced our product R&D and technology level.

With the Group's further investment and exploitation in the fields of dual-mode handsets as well as smart phone technologies, it has established complete product series of dual-mode phones and has built three independent smartphone operating system platforms, which are based on Windows CE, Brew, and Linux respectively. During the reporting period, the Group has successfully developed five new models in three smartphone series of which are operated by its own operating system, including one CDMA/GSM model with Brew O/S (Coolpad2938), two GSM/GSM models with Windows CE O/S (Coolpad8688 and Coolpad8360) and two TD-SCDMA/GSM models with Windows CE O/S (Coolpad6260 and Coolpad6268). Apart from these multi-mode models based on 2.5G networks (CDMA network and GSM network), during the reporting period, the Group has also developed two TD-SCDMA/GSM dual-mode smartphones, where TD-SCDMA is China's home-grown 3G standard. The Group has developed 3G software frame based on technologies developed independently which the Group owns intellectual property rights.

In the first half year of 2008, a big event of telecommunications restructuring took place in the Mainland China. As a result of the Restructuring, the Group's business in the CDMA network market has been seriously affected in the first half of this year. The sales of CDMA products declined vastly to only about 125,000 units in the CDMA network, representing a decrease of 48.8%, when compared with 244,000 units in the corresponding period of 2007. However, its gross profit margin still remained stable at about 44%. In addition, the GSM/GSM devices has not achieved a good result because the Group was still in process of building up brand image and cooperation relationships with GSM network operators since last year.

The "Coolpad" brand awareness continued to improve in China during the reporting period. The Group has initiated a broad range of promotion activities through the CCTV channels in the first quarter of this year, which is aimed to improve the Group's image and its brand recognition.

Products and services are the strongest competitive strength of the Group. Quality and experience enjoyed by the consumers are of most importance to an enterprise. The Group expanded its customer service team substantially in the period under review and committed to offer full service for Coolpad users. The Group has first established the 3G video service in the PRC, and strove to develop its creative service mode — "Coolpad terminal + Coolpadtone mobile data platform", which provides games downloading, data resolving, GPS and other value-added data services to its end-users. In addition, following its efforts in the previous year to optimize the operation platform, the Group was endeavoring to conduct the business process reengineering, in order to improve the efficiency of its administration. All these measures paved a solid ground for the Group's long-term development.

All in all, the Restructuring in the period under review has adversely impacted the performance of the Group in the first half year. However, the Group has made some breakthroughs in the development and application of new technologies at the same time, including the new application platform for the internet wireless mobile, the Brew platform, CMMB, PTT (Push-to-Talk), etc. The Group had established a solid R&D platform; and therefore it is well positioned to launch new products to meet market demand.

# MANAGEMENT DISCUSSION & ANALYSIS

## BUSINESS OUTLOOK

There will be three mobile network operators in the Mainland China after China Telecommunications Corporation (“China Telecom”) takes over the CDMA network business from China United Communications Corporation (“China Unicom”) pursuant to the Restructuring. The management of the Group (the “Management”) believes the CDMA handset market will grow rapidly after the Restructuring, as it is expected that the network operators will put much more resources into expand this market than before. As a result, the demand of CDMA terminals will increase significantly in the next three years, as forecasted by SINO Market Research Ltd.. As the leading CDMA handset provider in the PRC, the Management expects to receive a good market share in future. In addition, the demand of smartphone is increasing in the Mainland China in recent years. The Group as a high-end smartphone manufacturer is trying to seize the opportunity to expand its business. Particularly, the Group’s market share in TD-SCDMA/GSM dual-mode smartphone is expected to have a significant growth with the expansion of the trial commercialization of TD-SCDMA in the Mainland China in the second half year of 2008. Therefore, the Management believes its performance will continue to improve in the future.

The Group will further strengthen its focus on providing high-end dual-mode smartphone in the Mainland China in the second half year of 2008. The Group plans to consolidate its position in the CDMA network, and start to roll out innovative and competitive products of TD/GSM dual-mode smartphone in the ten TD-SCDMA network covered cities in the future.

In the second half year of 2008, the Group will launched seven models product with strong functions and special features targeting various customers and telecom operators to provide them wireless data solutions. These new smartphone models will include two models for each of CDMA/GSM dual-mode smarhnone, two models of GSM/GSM dual-mode smartphone and two models of TD/GSM dual-mode smartphone (including one TD-SCDMA/CMMB smartphone) as well as one CDMA single-mode smartphone.

The Group will continue its muti-channel operations, and try to optimize the sales channels. Being a partner of telecom operators, the Group will seek geographical expansion by working hand-in-hand with the telecom operators to explore new markets. The Group, with its strong CDMA expertise, plans to to further enlarge its market share as the demand for CDMA handsets are expected to be surged after the Restructuring. At the same time, the Group will also try to consolidate the strategic relationships with GSM network operators through providing them with customized products that contain unique value-added service. Besides, the Group will continue to seek for qualified distributors and agents with strong customer basis to enhance its distribution capability. The group will continue to exploit the overseas market and promote its own brand.

The Group will enhance the cooperation with its business partners, such as Microsoft Corporation, Qualcomm Inc, TI, Datang, etc. Moreover, the Group’s present strategy primarily focused on reorganization and streamlining the key products in order to gain market share and to establish a solid foundation for future growth. The Group will continue to invest in CDMA and 3G technologies to strengthen its R&D and project management resources for further improvement of its capability to address the operator-driven markets particularly the R&D on the smartphone functions of GPS, TV and other 3G technologies. Besides, the Group will continue to develop new models of internet wireless smartphones and other relative applications. With the aim to broaden the source of revenue, the Group will develop Coolpadtone data service and other wireless data solutions for both enterprises and individuals. At the same time, the Group will continue to focus on its product development of multimedia handsets.

The Group will continue to emphasis in the human resource deployment as before. The Group will endeavor to enhance the cost control and the ordinary operation management, so as to lower the selling and administrative costs effectively.

All in all, spearheaded by a high-caliber management team together with strict internal control policy and effective administration process, the Group has confidence in achieving all the above mentioned goals and rewarding its shareholders with better results in the second half year of 2008 and the years ahead.

## 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 consider that the Group did not have any significant foreign exchange exposure.

## EMPLOYEES AND REMUNERATION POLICY

During the reporting period, the staff cost amounted to HK\$111.0 million. The remuneration of the Group’s employees is commensurate with their responsibilities and market rates, with discretionary bonuses given on a merit basis. The Group also provides on-job training to our employees from time to time.

# MANAGEMENT DISCUSSION & ANALYSIS

## SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 30 June 2008.

## MATERIAL ACQUISITION AND DISPOSALS DURING THE YEAR

There were no material acquisitions and disposals of the Company, its subsidiaries and associated companies during the reporting period.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period under review, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme by a written resolution of all shareholders of the Company on 21 November 2004 (the "Share Option Scheme"). Details of options granted under the Share Option Scheme are disclosed in Note 21 to the Financial Statement below.

## SHARE AWARD PLAN

On 3 March 2008 (the "Adoption Date"), the Board adopted a share award plan (the "Share Award Plan") in which eligible participants (including without limitation any executive director of the Company, any of the subsidiaries and/or any invested entities for the time being and from time to time) of the Group will be entitled to participate. Unless early terminated by the Board, the Share Award Plan shall be valid and effective for a term of 10 years commencing on the Adoption Date. In any given financial year of the Company, the maximum numbers of shares to be purchased by the share award plan trustee (the "Share Award Plan Trustee"), who is appointed by the Company for the administration of the Share Award Plan, for the purpose of the Share Award Plan shall not exceed 2% of the issued share capital of the Company as at the beginning of such financial year.

Pursuant to the Share Award Plan, the Board shall determine the eligibility of the eligible participants and the number of shares to be awarded (the "Awarded Shares"). Awarded Shares will be purchased on the Stock Exchange at the prices as considered to be appropriated by the Share Award Plan Trustee by utilizing the initial trust fund of HK\$20,000,000 to be paid by the Company or funds allocated by the Directors out of the Company's resources. Vested shares will be transferred at no cost to the awarded persons. The Company shall comply with the relevant Listing Rules when granting the Awarded Shares.

If awards are made to any Directors of the Group, such awards shall be approved by the Remuneration Committee. Where a Director or his associate is a member of the Remuneration Committee, he shall abstain from voting on the approval regarding the awards made to such Director.

The legal and beneficial ownership of the relevant Awarded Shares shall vest in the relevant awarded participants within 10 business days after the latest of: (a) the date specified by the Directors on the notice of the award (which shall not be earlier than the first business day immediately following the expiry of six months after the Adoption Date); (b) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such awarded participant as specified in the related notice of award have been attained and notified to the Share Award Plan Trustee by the Directors in writing; and (c) where applicable, the date on which the Share Award Plan Trustee has completed the purchase of shares for the purpose of making the relevant award.

As at 30 June 2008, the initial trust fund has not yet paid by the Company to the Share Award Plan Trustee, and no share has been awarded under the Share Award Plan.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the sections headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option scheme", at no time during the reporting period were rights to acquire benefits by means of acquisition of shares in the Company granted to any director or their respective spouse 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.

# MANAGEMENT DISCUSSION & ANALYSIS

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

As at 30 June 2008, 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:

Name of director	Notes	Number of shares held, capacity and nature of interest					Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust		
Mr. Guo Deying	1 & 2	—	831,171,248	21,728,000	—	831,171,248	852,899,248	41.81
Ms. Yang Xiao	1 & 2	—	831,171,248	21,728,000	—	831,171,248	852,899,248	41.81
Mr. Jiang Chao	3			—	21,728,000	—	21,728,000	1.07

### Long positions in shares of an associated corporation:

Name of director	Note	Name of associated corporation	Number of shares held, capacity and nature of interest			Percentage of issued share capital of the associated corporation
			Through spouse or minor children	Founder of a discretionary trust		
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:

- 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 settler 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 settler 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.

- Mr. Guo was deemed to be interested in the 21,728,000 shares held by Wintech Consultants Limited as he was the director of Wintech Consultants Limited. As the spouse of Mr. Guo, Ms. Yang is taken to be interested in the 21,728,000 shares held by Mr. Guo through Wintech Consultants Limited.
- Mr. Jiang, an executive director, was interested in the 21,728,000 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,

# MANAGEMENT DISCUSSION & ANALYSIS

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

As at 30 June 2008, save as disclosed above, 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 interested in which interested	Number of shares interested under equity derivatives	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited	1	831,171,248	—	Beneficial owner	831,171,248	40.74
Barrie Bay Limited	2	831,171,248	—	Interest of a controlled corporation	831,171,248	40.74
HSBC International Trustee Limited	2	831,171,248	—	Trustee	831,171,248	40.74

#### 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 30 June 2008, 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.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

Code Provision A.2.1 of the Code of Corporate Governance Practices (the "Code") as was set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange Limited (the "Listing Rule") stipulates that the roles of chairman and chief executive officer should be separated 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 thus implement decisions promptly and efficiently.

Save as disclosed above, none of the directors is aware of any information which would reasonably indicate that the Company was not, for any part of the six months ended 30 June 2008, in compliance with the Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period under review.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprising the four independent non-executive directors, namely Mr. Chan King Chung (the Chairman), Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Yang Xianzu, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Group's unaudited financial statements for the six months ended 30 June 2008 have been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made therein.

# CONSOLIDATED INCOME STATEMENT

The Board is pleased to present the Group's unaudited interim results for the six months ended 30 June 2008, together with the comparative figures for the corresponding period of 2007. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Audit Committee.

	Notes	The six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
REVENUE	4	441,315	753,764
Cost of sales		(255,015)	(481,631)
Gross profit		186,300	272,133
Other income and gains	4	22,803	8,109
Selling and distribution costs		(118,684)	(65,877)
Administrative expenses		(130,273)	(84,775)
Other expenses		(428)	(303)
Finance costs	6	(8,535)	(4,649)
Share of loss of an associate		(442)	—
PROFIT/(LOSS) BEFORE TAX	5	(49,259)	124,638
Tax	8	—	—
PROFIT/(LOSS) FOR THE YEAR		(49,259)	124,638
DIVIDENDS	9	—	10,084
Proposed Interim dividend		—	10,084
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	10		
Basic (2007 restated)		(2.43) cents	6.23 cents
Diluted (2007 restated)		(2.38) cents	5.99 cents

# CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		393,268	345,680
Investment properties		30,766	28,917
Prepaid land lease payments		57,941	12,155
Intangible assets		55,302	36,665
Interest in an associate		8,675	8,583
<b>Total non-current assets</b>		<b>545,952</b>	432,000
<b>CURRENT ASSETS</b>			
Inventories	13	288,547	288,686
Trade receivables	14	90,894	168,692
Bills receivable	15	23,134	40,080
Prepayments, deposits and other receivables	16	206,312	194,131
Due from directors		70	134
Pledged time deposits		50,300	29,204
Cash and cash equivalents		105,598	91,222
<b>Total current assets</b>		<b>764,855</b>	812,149
<b>CURRENT LIABILITIES</b>			
Trade payables	17	63,360	87,879
Bills payable	18	79,197	36,431
Other payables and accruals		93,490	157,355
Interest-bearing bank and other borrowings	19	305,812	187,601
Due to an associate		7,065	7,386
Tax payable		15,215	15,064
<b>Total current liabilities</b>		<b>564,139</b>	491,716

# CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
NET CURRENT ASSETS		200,716	320,433
TOTAL ASSETS LESS CURRENT LIABILITIES		746,668	752,433
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		68,228	79,091
Deferred tax liabilities		12,759	11,992
Total non-current liabilities		80,987	91,083
Net assets		665,681	661,350
EQUITY			
Equity attributable to equity holders of the parent company			
Issued capital	20	20,400	20,230
Reserves		645,281	641,120
Proposed interim dividend	9	—	—
Total equity		665,681	661,350

# CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	The six months ended	
	30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
TOTAL EQUITY		
Balance at beginning of year	661,350	431,664
Profit/(loss) for the year	(49,259)	124,638
Dividends paid	—	(15,126)
Bonus shares	—	5,042
Issue of shares, including share premium	3,136	2,871
Share issue expenses	—	—
Share option reserve	7,353	2,607
Exchange fluctuation reserve	43,101	16,497
Balance at end of the period	665,681	568,193

# CONSOLIDATED CASH FLOW STATEMENT

	The six months ended	
	30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash inflow/(outflow) from operating activities	(19,671)	103,220
Net cash outflow from investing activities	(99,838)	(2,433)
Net cash inflow/(outflow) from financing activities	127,520	(59,924)
Net increase in cash and bank balances	8,011	40,863
Cash and bank balances at beginning of period	91,222	83,439
Effects of foreign exchange rate changes, net	6,365	2,520
Cash and bank balances at end of the period	105,598	126,822

# BALANCE SHEET

	Notes	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Fixed assets		475	—
Interests in subsidiaries		44,991	44,991
Intangible assets		2,723	3,501
<b>Total non-current assets</b>		<b>48,189</b>	48,492
<b>CURRENT ASSETS</b>			
Due from subsidiaries		206,401	162,983
Deposits and other receivables		20	26
Pledged time deposits		20,000	15,001
Cash and cash equivalents		20,362	19,244
<b>Total current assets</b>		<b>246,783</b>	197,254
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		526	295
Interest-bearing bank and other borrowings		33,756	2,750
<b>Total current liabilities</b>		<b>34,282</b>	3,045
<b>NET CURRENT ASSETS</b>		<b>212,501</b>	194,209
<b>Net assets</b>		<b>260,690</b>	242,701
<b>EQUITY</b>			
Issued capital		20,400	20,230
Reserves		240,290	222,471
Proposed interim dividend	9	—	—
<b>Total equity</b>		<b>260,690</b>	242,701

# NOTES TO FINANCIAL STATEMENT

## 1. CORPORATE INFORMATION

China Wireless Technologies Limited is a limited liability company incorporated on 11 June 2002 in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY 1-1111, Cayman Islands.

During the reporting period, the Group was involved in providing wireless system solutions and smartphones for the wireless telecommunication market in Mainland China.

In the directors' opinion, the parent 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 six months ended 30 June 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All 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.

HK(IFRIC)-Int 11	HKFRS2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction

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

### (a) HK(IFRIC)-Int 11 HKFRS2 — Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an 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.

### (b) HK(IFRIC)-Int 12 Service Concession Arrangements

This interpretation requires an operator under public-to-private service concession arrangements to recognize 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.

# NOTES TO FINANCIAL STATEMENT

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

### (c) HK(IFRIC)-Int 14 HKAS19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction

This interpretation 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 recognized as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, this interpretation is not applicable to the Group, and therefore is unlikely to have any financial impact on 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 <sup>1</sup>
HKAS 1 and HKAS 32 (Amendments)	Financial Instruments: Presentation Puttable Financial Instruments and Obligations arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendments)	Share-based Payment <sup>1</sup>
HKFRS 3 (Revised)	Business Combination <sup>3</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>3</sup> 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.

HKAS 1 and HKAS 32 (Amendments) have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The standards are unlikely to have any financial impact on the Group.

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 or 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 recognized, 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.

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.

# NOTES TO FINANCIAL STATEMENT

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

HKAS 23 has been revised to require capitalization 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 rise 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 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.

## 3. SEGMENT INFORMATION

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 period under review, 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.

## 4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods during the six months ended 30 June 2008, 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 turnover and other revenue is as follows:

	The six months ended 30 June	
	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
<b>Revenue</b>		
Sale of wireless system solutions and smartphones	441,315	753,764
<b>Other income</b>		
Rental income	1,401	—
Bank interest income	903	795
Government grants and subsidies*	14,107	7,309
Accessory income	5,516	—
Sundry income	876	5
	<b>22,803</b>	8,109
	<b>464,118</b>	761,873

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

# NOTES TO FINANCIAL STATEMENT

## 5. PROFIT BEFORE TAX

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

	The six months ended 30 June	
	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
Cost of inventories sold	255,015	481,631
Depreciation	3,326	3,176
Amortisation of patents and licences*	7,950	4,265
Recognition of prepaid land lease payments	154	141
Research and development costs		
Product development costs amortised*	3,134	1,497
Current year expenditure	34,726	46,032
	<b>37,860</b>	47,529
Operating lease rental	2,473	697
Loss on disposal of items of property, plant and equipment	297	1
Staff costs (including directors' and senior executives' emoluments):		
Salaries and wages	89,847	44,996
Staff welfare expenses	3,366	1,642
Pension scheme contributions	10,450	2,419
Equity-settled share option expense	7,353	2,607
Total staff costs	<b>111,016</b>	51,664
Rental income	(1,401)	—
Bank interest income	(903)	(795)

\* The amortization of patents and licenses and product development costs for the six months was included in "Administrative expenses" on the face of the consolidated income statement.

## 6. FINANCE COSTS

	The six months ended 30 June	
	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
Interest expense on:		
Bank loans repayable in full within one year	5,476	4,649
Bank loans repayable in full within four year	4,235	—
Bill payable	3,059	—
Less: Interest capitalised	(4,235)	—
	<b>8,535</b>	4,649

# NOTES TO FINANCIAL STATEMENT

## 7. DIRECTOR'S REMUNERATION

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

	The six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Fees:	205	171
Other emoluments executive directors:		
Salaries, allowances and benefits in kind	1,985	1,128
Pension scheme contributions	2	2
	1,987	1,130
	2,192	1,301

### (a) Independent non-executive directors

The fees should be paid to the Group's independent non-executive directors during the six months ended 30 June were as follows:

	2008 HK\$'000	2007 HK\$'000
Mr. Xie Weixin	28	—
Dr. Huang Dazhan	60	60
Mr. Chan King Chung	50	50
Mr Yang Xianzu	67	61
	205	171

There were no other emoluments payable to the independent non-executive directors during the reporting period.

### (b) Executive directors and non-executive directors

Six months ended 30 June 2008	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive Directors:			
Mr. Guo Deying	992	—	992
Mr. Jiang Chao	662	1	663
Non-executive directors:			
Ms. Ma Dehui	—	—	—
Ms. Yang Xiao	331	1	332
	1,985	2	1,987

# NOTES TO FINANCIAL STATEMENT

## 7. DIRECTOR'S REMUNERATION (Continued)

### (b) Executive directors and non-executive directors (Continued)

Six months ended 30 June 2007	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:			
Mr. Guo Deying	567	—	567
Mr. Jiang Chao	303	2	305
Non-executive directors:			
Ms. Ma Dehui	—	—	—
Ms. Yang Xiao	258	—	258
	1,128	2	1,130

## 8. TAX

No provision for Hong Kong profits tax has been made (2007: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the reporting period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	The six months ended 30 June	
	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
Current year provision:		
Hong Kong	—	—
Mainland China	—	—
Total tax charge for the year	—	—

	The six months ended 30 June	
	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
Profit/(loss) before tax	(49,259)	124,638
Tax at the applicable tax rate (2008: 18%, 2007: 15%)	(8,867)	18,696
Expense not deductible for tax	2,816	—
Tax exemption/relief	(2,901)	(29,333)
Tax losses not recognised	8,952	10,637
Tax charge at the Group's effective rate (June 2007: Nil)	—	—

# NOTES TO FINANCIAL STATEMENT

## 8. TAX (Continued)

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("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 18% was applied for the six months ended 30 June 2008. No provision for taxation has been made as Shenzhen Yulong suffered a loss for the year.

Coolpad Software Tech. (Shenzhen) Co., Ltd. ("Shenzhen Coolpad") was set up on 7 March 2006 and commenced operations in September 2006. It 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 commenced in 2006, an income tax rate of 9% was applied for the six months ended 30 June 2008.

Dongguan Yulong Telecommunications Scientific Co., Ltd. ("Dongguan Yulong") was set up on 3 November 2006. There was no revenue for the six months ended 30 June 2008. No provision for taxation has been made.

Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad Software") was set up on 2 November 2007. There was no revenue for the six months ended 30 June 2008. No provision for taxation has been made as Xi'an Coolpad software.

## 9. DIVIDENDS

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2008.

## 10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY

The calculation of basic loss per share is based on the net loss for the six months ended 30 June 2008 attributable to ordinary equity holders of the parent Company of HK\$49,259,000 and the weighted average number of ordinary shares in issue during the six months ended 30 June 2008 of 2,025,951,669.

The calculation of diluted loss per share is based on the net loss for the six months ended 30 June 2008 attributable to ordinary equity holders of the parent company of HK\$49,259,000. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period of 2,025,951,669, as used in the basic loss per share calculation and the weighted average number of ordinary shares of 40,014,338 assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	The six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Earnings/(loss)		
Net profit/(loss) attributable to ordinary equity holders of the parent company, used in the basic earnings/(loss) per share calculation:	(49,259)	124,638
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	2,025,951,669	2,000,815,735 (Restated)
Effect of dilution — Weighted average number of ordinary shares:		
Share options	40,014,338	80,767,783 (Restated)
	<b>2,065,966,007</b>	2,081,583,518

# NOTES TO FINANCIAL STATEMENT

## 10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY (Continued)

The group granted bonus shares on the basis of one bonus share for every one ordinary share at par value of HK\$0.01 each to shareholders whose names appeared on the register of members on 8 October 2007. The number of the shares for the six months ended 30 June 2007 were restated to reflect the issue of bonus shares.

## 11. INTERESTS IN SUBSIDIARIES

	Company	
	2008 HK\$'000	2007 HK\$'000
Unlisted shares, at cost	44,991	44,991

The carrying value of the unlisted shares in subsidiaries is approximate to its fair value.

The amounts due from subsidiaries included in the Company's current assets of HK\$206,400,719 (2007: HK\$162,983,000), are unsecured, interest-free and are repayable on demand or within one year.

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		Principal activities
			Direct	Indirect	
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 communication terminals and mobile data business system
Coolpad Software Tech (Shenzhen) Co., Ltd*	PRC/Mainland China	Paid-up and registered HK\$10,000,000	—	—	Research and development and sale of mobile telecommunication, computer and multimedia technologies
Dongguan Yulong Telecommunications Scientific Co., Ltd.	PRC/Mainland China	Paid-up RMB68,200,616 Registered RMB120,000,000	—	100	Research, development and design of handheld communication 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 are registered as a wholly-foreign-owned enterprise under PRC law.

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

# NOTES TO FINANCIAL STATEMENT

## 12. INTERESTS IN AN ASSOCIATE

	Group	
	30 June 2008 HK\$'000 Unaudited	31 December 2007 HK\$'000 Audited
Unlisted shares, at cost	8,675	8,583

The carrying value of the interest in an associate is approximate to its fair value. Particulars of the associate are as follows:

Company	Place of incorporation/ registration/ operations	Issued and fully paid-up registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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 summarized financial information of the Group's associate:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Assets	36,346	35,357
Liabilities	(1,644)	(1,026)
Revenues	412	1,539
Profit/(loss)	(1,770)	124

## 13. INVENTORIES

	30 June 2008 HK\$'000 Unaudited	31 December 2007 HK\$'000 Audited
Raw materials	134,056	135,989
Work in progress	60,392	60,594
Finished goods	94,099	92,103
	288,547	288,686

## 14. 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 for a period of three months and a longer credit term of four to six months may be extended to 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 minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

# NOTES TO FINANCIAL STATEMENT

## 14. TRADE RECEIVABLES (Continued)

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

	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Within 3 months	90,725	167,740
4 to 6 months	1,871	811
7 to 12 months	104	141
1 to 2 years	1,409	2,006
More than 2 years	8,581	9,081
	<b>102,690</b>	179,779
Provision	<b>(11,796)</b>	(11,087)
	<b>90,894</b>	168,692

## 15. BILLS RECEIVABLE

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

	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Within 3 months	23,134	40,080

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>Group</b>	
	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Prepayments	122,693	144,009
Deposits and other receivables	70,849	46,982
Subsidy receivables	12,770	3,140
	<b>206,312</b>	194,131

# NOTES TO FINANCIAL STATEMENT

## 17. TRADE PAYABLES

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

	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Within 3 months	51,674	73,406
4 to 6 months	6,248	4,156
7 to 12 months	1,633	929
More than 1 year	3,805	9,388
	<b>63,360</b>	87,879

## 18. BILLS PAYABLE

The aging of the Group's bills payable as at the balance sheet date, based on the invoice date, is within three months.

## 19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<b>Group</b>	
	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Current		
Bank loans, wholly repayable within one year-secured	98,931	71,102
Bank loans, wholly repayable within one year-unsecured	206,881	112,224
Other borrowing, wholly repayable within one year	—	4,275
	<b>305,812</b>	187,601
Non-current		
Bank loan-secured	68,228	79,091
	<b>374,040</b>	266,692

	<b>Company</b>	
	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Current		
Bank loans, wholly repayable within one year-secured	33,756	2,750

# NOTES TO FINANCIAL STATEMENT

## 20. SHARE CAPITAL

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Authorized:		
4,000,000,000 (2007:4,000,000,000) ordinary share of HK\$0.01 each	40,000	40,000
Issued and fully paid:		
2,039,996,000 (2007:2,022,976,000) ordinary shares of HK\$0.01 each	20,400	20,230

During the six months ended 30 June 2008, the movements in share capital were as follows:

- The subscription rights attached to 16,000,000 share options were exercised at the subscription price of HK\$0.175 per share, resulting in the issue of 16,000,000 shares for a total cash consideration, before expenses, of HK\$2,800,000.
- The subscription rights attached to 552,000 share options were exercised at the subscription price of HK\$0.2175 per share, resulting in the issue of 552,000 shares for a total cash consideration, before expenses, of HK\$120,060.
- The subscription rights attached to 468,000 share options were exercised at the subscription price of HK\$0.4615 per share, resulting in the issue of 468,000 shares for a total cash consideration, before expenses, of HK\$215,982.

## 21. SHARE OPTION SCHEME

Movements of the share options granted during the six months ended 30 June 2008 were as follows:

Name or category of participant	Number of share options						Price of Company's share***			
	At 1 January 2008	Granted during the reporting period	Exercised during the reporting period	Expired during the reporting period	Forfeited during the reporting period	Date of grant of share options*	Exercise period of share options	Original	Adjusted	
								price before completion of bonus issue in 2008**	price before completion of bonus issue in 2008**	
					At 30 June 2008		HK\$ per share	HK\$ per share		
Employees										
In aggregate-granted on 6 June 2005	64,000,000	—	16,000,000	48,000,000	—	—	6-Jun-05	7-06-05 to 6-06-08	0.7	0.175
In aggregate-granted on 20 June 2005	9,904,000	—	552,000	—	384,000	8,968,000	20-Jun-05	28-06-05 to 27-06-09	0.87	0.2175
In aggregate-granted on 27 July 2006	37,712,000	—	468,000	—	1,632,000	35,612,000	27-Jul-06	27-07-06 to 26-07-10	1.846	0.4615
In aggregate-granted on 27 July 2006	4,416,000	—	—	—	672,000	3,744,000	27-Jul-06	27-07-06 to 26-07-11	1.846	0.4615
In aggregate-granted on 18 Sep 2007	27,512,000	—	—	—	2,360,000	25,152,000	18-Sep-07	18-09-08 to 17-09-12	2.83	1.415
In aggregate-granted on 18 Sep 2007	3,840,000	—	—	—	—	3,840,000	18-Sep-07	18-09-10 to 17-09-14	2.83	1.415
In aggregate-granted on 16 January 2008	—	800,000	—	—	—	800,000	16-Jan-08	16-01-09 to 15-01-13	1.048	1.048
In aggregate-granted on 20 May 2008	—	20,180,000	—	—	—	20,180,000	20-May-08	20-05-09 to 19-05-13	0.674	0.674
In aggregate-granted on 20 May 2008	—	8,216,000	—	—	—	8,216,000	20-May-08	20-05-10 to 19-05-14	0.674	0.674
In aggregate-granted on 20 May 2008	—	15,048,000	—	—	—	15,048,000	20-May-08	20-05-11 to 19-05-15	0.674	0.674
In aggregate-granted on 20 May 2008	—	3,984,000	—	—	—	3,984,000	20-May-08	20-05-14 to 19-05-18	0.674	0.674
<b>Subtotal</b>	<b>147,384,000</b>	<b>48,228,000</b>	<b>17,020,000</b>	<b>48,000,000.00</b>	<b>5,048,000</b>	<b>125,544,000</b>				
Business consultants	8,000,000	—	—	—	—	8,000,000	18-Sep-07	18-09-10 to 17-09-14	2.83	1.415
<b>Total</b>	<b>155,384,000</b>	<b>48,228,000</b>	<b>17,020,000</b>	<b>48,000,000</b>	<b>5,048,000</b>	<b>133,544,000</b>				

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

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 reporting period, the Company granted options for the subscription of an aggregate of 48,228,000 shares pursuant to the terms of the Share Option Scheme, as follows:

On 16 January 2008, options for the subscription of 800,000 shares were granted to certain employees of the Group at an exercise price of HK\$1.048 per share, which are exercisable in the manner set out detailed below:

As for options to subscribe for 800,000 shares held by four 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.

On 20 May 2008, options for the subscription of 20,180,000 shares were granted to certain employees of the Group at an exercise price of HK\$0.674 per share, whose maturity is five years, and they are exercisable in the manner set out 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 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 128,000 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 122,000 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 122,000 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;
- (ii) As for options to subscribe for 400,000 shares held by one grantees, such options are exercisable by the grantees:
  - (a) In respect of options to subscribe for the first 100,000 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;

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

- (b) In respect of options to subscribe for the further 100,000 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 100,000 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 100,000 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 204,000 shares held by one grantees, such options are exercisable by 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 52,000 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;
- (iv) As for options to subscribe for 1,536,000 shares held by 8 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;
- (v) As for options to subscribe for 11,328,000 shares held by 118 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;

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

- (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;
- (vi) As for options to subscribe for 5,520,000 shares held by 115 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;
- (vii) As for options to subscribe for 192,000 shares held by 8 grantees of options for 24,000 shares each, such options are exercisable by each of the grantees:
- (a) In respect of options to subscribe for the first 8,000 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 8,000 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 4,000 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 4,000 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.

On 20 May 2008, options for the subscription of 8,216,000 shares were granted to certain employees of the Group at an exercise price of HK\$0.674 per share, whose maturity is six years, and they are exercisable in the manner set out detailed below:

- (i) As for options to subscribe for 2,000,000 shares held by two grantees of options for 1,000,000 shares each, such options are exercisable by each of the grantees:

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

- (a) In respect of options to subscribe for the first 256,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the sixth 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 third anniversary up to (but not including) the date falling on the sixth 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 fourth anniversary up to (but not including) the date falling on the sixth 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 fifth anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant.
- (ii) As for options to subscribe for 3,000,000 shares held by one grantees, such options are exercisable by the grantees:
- (a) In respect of options to subscribe for the first 752,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant;
  - (b) In respect of options to subscribe for the further 752,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant;
  - (c) In respect of options to subscribe for the further 748,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant;
  - (d) In respect of options to subscribe for the last 748,000 shares, at any time during the period commencing from the fifth anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant.
- (iii) As for options to subscribe for 2,112,000 shares held by 11 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 second anniversary up to (but not including) the date falling on the sixth 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 third anniversary up to (but not including) the date falling on the sixth 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 fourth anniversary up to (but not including) the date falling on the sixth 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 fifth anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant;

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

- (iv) As for options to subscribe for 1,056,000 shares held by 11 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 second anniversary up to (but not including) the date falling on the sixth 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 third anniversary up to (but not including) the date falling on the sixth 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 fourth anniversary up to (but not including) the date falling on the sixth 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 fifth anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant.
- (v) As for options to subscribe for 48,000 shares held by one grantees, such options are exercisable by the grantees:
  - (a) In respect of options to subscribe for the first 12,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the sixth 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 third anniversary up to (but not including) the date falling on the sixth 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 fourth anniversary up to (but not including) the date falling on the sixth 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 fifth anniversary up to (but not including) the date falling on the sixth anniversary from the date of acceptance of the grant.

On 20 May 2008, options for the subscription of 15,048,000 shares were granted to certain employees of the Group at an exercise price of HK\$0.674 per share, whose maturity is seven years and they are exercisable in the manner set out detailed below:

- (i) As for options to subscribe for 1,000,000 shares held by one grantees, such options are exercisable by each of the grantees:
  - (a) In respect of options to subscribe for the first 256,000 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 248,000 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 248,000 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;

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

- (d) In respect of options to subscribe for the last 248,000 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.
- (ii) As for options to subscribe for 800,000 shares held by two grantees of options for 400,000 shares each, such options are exercisable by each of the grantees:
  - (a) In respect of options to subscribe for the first 100,000 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 100,000 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 100,000 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 100,000 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.
- (iii) As for options to subscribe for 4,608,000 shares held by 24 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.
- (iv) As for options to subscribe for 8,064,000 shares held by 84 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;

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

- (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;
- (v) As for options to subscribe for 576,000 shares held by 12 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 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 12,000 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 12,000 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 12,000 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;

On 20 May 2008, options for the subscription of 3,984,000 shares were granted to certain employees of the Group at an exercise price of HK\$0.674 per share, whose maturity is ten years and they are exercisable in the manner set out detailed below:

- (i) As for options to subscribe for 3,600,000 shares held by 9 grantees of options for 400,000 shares each, such options are exercisable by each of the grantees:
  - (a) In respect of options to subscribe for the first 100,000 shares, at any time during the period commencing from the sixth anniversary up to (but not including) the date falling on the tenth anniversary from the date of acceptance of the grant;
  - (b) In respect of options to subscribe for the further 100,000 shares, at any time during the period commencing from the seventh anniversary up to (but not including) the date falling on the tenth anniversary from the date of acceptance of the grant;
  - (c) In respect of options to subscribe for the further 100,000 shares, at any time during the period commencing from the eighth anniversary up to (but not including) the date falling on the tenth anniversary from the date of acceptance of the grant;
  - (d) In respect of options to subscribe for the last 100,000 shares, at any time during the period commencing from the ninth anniversary up to (but not including) the date falling on the tenth anniversary from the date of acceptance of the grant;
- (ii) As for options to subscribe for 192,000 shares held by one grantees, 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 sixth anniversary up to (but not including) the date falling on the tenth 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 seventh anniversary up to (but not including) the date falling on the tenth anniversary from the date of acceptance of the grant;

# NOTES TO FINANCIAL STATEMENT

## 21. SHARE OPTION SCHEME (Continued)

- (c) In respect of options to subscribe for the further 48,000 shares, at any time during the period commencing from the eighth anniversary up to (but not including) the date falling on the tenth 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 ninth anniversary up to (but not including) the date falling on the tenth anniversary from the date of acceptance of the grant;
- (ii) 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 sixth anniversary up to (but not including) the date falling on the tenth 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 seventh anniversary up to (but not including) the date falling on the tenth 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 eighth anniversary up to (but not including) the date falling on the tenth 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 ninth anniversary up to (but not including) the date falling on the tenth anniversary from the date of acceptance of the grant;

## 22. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties 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 adjustment according to the then prevailing market conditions.

As at 30 June 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Within one year	<b>2,205</b>	1,333
In the second to fifth years, inclusive	<b>3,633</b>	1,226
	<b>5,838</b>	2,559

# NOTES TO FINANCIAL STATEMENT

## 22. 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 one 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:

	<b>30 June 2008 HK\$'000 Unaudited</b>	31 December 2007 HK\$'000 Audited
Within one year	<b>6,333</b>	5,387
In the second to fifth year, inclusive	<b>8,241</b>	10,459
	<b>14,574</b>	15,846

## 23. CONTINGENT LIABILITIES

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

## 24. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Group

#### *Financial assets*

	<b>30 June 2008 Loans and receivables HK\$'000 Unaudited</b>	31 December 2007 Loans and receivables HK\$'000 Audited
Trade receivables	<b>90,894</b>	168,692
Bills receivable	<b>23,134</b>	40,080
Other receivables	<b>70,849</b>	46,982
Pledge time deposits	<b>50,300</b>	29,204
Cash and cash equivalents	<b>105,598</b>	91,222
	<b>340,775</b>	376,180

# NOTES TO FINANCIAL STATEMENT

## 24. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

Group (Continued)

### Financial liabilities

	<b>30 June 2008 Financial liabilities at amortized cost HK\$'000 Unaudited</b>	31 December 2007 Financial liabilities at amortized cost HK\$'000 Audited
Trade payables	63,360	87,879
Bills payable	79,197	36,431
Other payables and accruals	43,140	59,369
Interest-bearing bank and other borrowings	374,040	266,692
Due to an associate	7,065	7,386
	<b>566,802</b>	457,757

Company

### Financial assets

	<b>30 June 2008 Loans and receivables HK\$'000 Unaudited</b>	31 December 2007 Loans and receivables HK\$'000 Audited
Due from subsidiaries	206,401	162,983
Pledge time deposits	20,000	15,001
Cash and cash equivalents	20,362	19,244
	<b>246,763</b>	197,228

### Financial liabilities

	<b>30 June 2008 Financial liabilities at amortized cost HK\$'000 Unaudited</b>	31 December 2007 Financial liabilities at amortized cost HK\$'000 Audited
Interest-bearing bank and other borrowings	33,756	2,750
	<b>33,756</b>	2,750

# NOTES TO FINANCIAL STATEMENT

## 25. 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 six months ended 30 June 2008, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing these risks and they are summarized below.

### Foreign currency risk

As the Group's investment operations are located in Mainland China, the Group's balance sheet can be affected significantly by movements in the HK\$/RMB exchange rates. 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.

### Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

## 26. EVENT AFTER THE BALANCE SHEET DATE

On 16 July 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 66,667 square meters. The total amount is HK\$37,912,000. The Group paid HK\$21,455,000 on 16 August 2008.

## 27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 26 August 2008.