

無線通訊

無限未來

WIRELESS COMMUNICATIONS

UNLIMITED IN THE FUTURE

Annual Report 2008

China Wireless Technologies Limited  
中國無線科技有限公司

(Incorporated in the Cayman Islands with limited liability)  
(stock code: 2369)



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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 Telecommunication Scientific (Shenzhen) Co., Ltd. (the "Yulong Shenzhen") 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. Yulong Shenzhen 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 to 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, CDMA2000 and WCDMA networks, the Company and its subsidiaries (the "Group") have developed a number of various proprietary technologies and patents in operating systems, radio frequencies, protocols and wireless data decomposed transmission technologies. 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 the research and development of smartphone as one kind of integrated wireless data solutions for telecommunications operators and other industry users in Mainland China.

Leveraging on its competitive advantages as a leading wireless data solutions developer in Mainland China's telecommunications market, the Group has succeeded in breaking into the global telecommunications market in respect of its own Coolpad brand. The Group has established strong and close strategic cooperation relationships with certain global telecommunications network operators and is striving to further develop its business in the global telecommunications markets.

The Group is committed to providing every consumers 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

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

## Principal Place of Business in Hong Kong

Room 1902, Mass Mutual Tower  
38 Gloucester Road  
Wanchai, Hong Kong

## Company Secretary and Qualified Accountant

Mr. JIANG Chao, ACCA

## Audit Committee

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

## Authorised Representatives

Mr. GUO Deying  
Mr. JIANG Chao

## Contact Information for Investor Relations

Tel: +86 755 3302 3607  
Email: [ir@yulong.com](mailto:ir@yulong.com)

## Auditors

Ernst & Young  
Certified Public Accountants

## Legal Advisers to the Company as to Hong Kong Law

DLA Piper Hong Kong

## Legal Advisers to the Company as to Cayman Islands Law

Conyers Dill & Pearman

## Principal Share Registrar and Transfer Office

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

## Hong Kong Branch Share Registrar and Transfer Office

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

## Principal Bankers

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

## Website Address

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

## Stock Code

2369



無論何時，  
豐富生活色彩

ANYTIME  
RICH IN SPECTACULAR



## Financial Highlights

The financial data below are extracted from the Group's audited financial statements audited by Ernst & Young and prepared in accordance with HKFRSs.

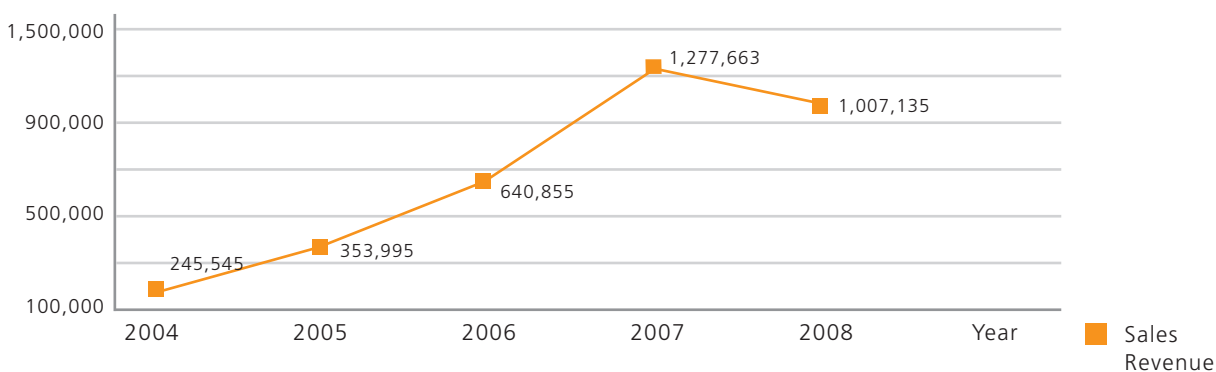
### Condensed Consolidated Income Statements

	Year ended 31 December (HK\$'000)				
	2008	2007	2006	2005	2004
Revenue	<b>1,007,135</b>	1,277,663	640,855	353,995	245,545
Profit/(loss) before tax	<b>(64,307)</b>	167,520	53,684	60,318	51,195
Tax	<b>(11,769)</b>	—	—	(9,442)	(7,528)
Profit/(loss) for the year	<b>(76,076)</b>	167,520	53,684	50,876	43,667
Profit/(loss) attributable to ordinary equity holders of the Company	<b>(76,076)</b>	167,520	53,684	50,876	43,667

### Condensed Consolidated Balance Sheets

	Year ended 31 December (HK\$'000)				
	2008	2007	2006	2005	2004
Non-current assets	<b>722,360</b>	432,000	168,586	64,468	39,485
Current assets	<b>862,915</b>	812,149	854,087	527,554	341,813
Non-current liabilities	<b>225,480</b>	91,083	102,939	2,035	1,191
Current liabilities	<b>718,696</b>	491,716	488,070	276,291	165,097
Net assets	<b>641,099</b>	661,350	431,664	313,696	215,010

### Annual Revenue (HK\$'000)



創新未來，成就今天

**INNOVATION IN THE FUTURE**  
TODAY'S SUCCESS



# Chairman's Statement

## Review of the Performance of the Group for the Year Ended 31 December 2008

### Operating Results

The Group's sales revenue for 2008 amounted to HK\$1,007.1 million, representing a year-on-year decline of 21.2%. The decrease was mainly attributable to the slump of the Group's principal business on CDMA/GSM dual-mode smartphone, which was significantly impacted by the Restructuring regarding the transition of the CDMA network operators in Mainland China.

For the year ended 31 December 2008, the Group recorded a net loss of HK\$76.1 million. Basic loss per share amounted to approximately HK\$0.0375. The net loss for the year was primarily due to lower turnover and higher expenses on the research and development and marketing activities than the previous financial year.

### Dividends

The Board of the Directors did not recommend the payment of any annual dividend in respect of the year ended 31 December 2008 in view of the Group's negative operating results and its overall financial conditions. It has been the Group's top priority to maximize the interests of the Company and its shareholders in the long run.

### *Dear shareholders,*

*The past year of 2008 was eventful for China, also extraordinary for the Group. The Group has recorded a net loss for the first time ever in its history as a result of the grim impact of the Mainland China's telecommunications restructuring (the "Restructuring") as well as the global financial Tsunami occurred last year. However, the Group has further consolidated its market position by proactively implementing differentiated products and market positioning strategies, restructured its business process and strengthened its research and development capabilities, and thus, created a solid foundation for the future development. In particular, the Group has been one of the most reputable smartphone's providers in the CDMA and TD-SCDMA network markets in Mainland China. Therefore, I am pleased to present the annual report for the financial year ended 31 December 2008, on behalf of the board (the "Board") of directors (the "Directors") of the Company.*

**Guo Deying**

Chairman, Executive Director and CEO







### Business Development

Against the backdrop of the difficult economic environment and the Restructuring in the year under review, the Group still has achieved some breakthrough in the field of mobile phone core technologies and its business expansion. Thanks to all its dedicated staff efforts, the Group is able to leverage opportunities presented by the domestic operators' investment realignments as well as the swift growth of the 3G technologies in China's smartphone market. The Group has invested approximately HK\$100 million into the research and development on TD-SCDMA(HSDPA\*)/GSM, CDMA1X2000(EVDO\*\*) /GSM and CDMA/GSM dual-mode smartphone. As a result, the improving competitive advantages on these technologies enabled the Group to strengthen its scope and depth of cooperation with telecommunications operators in Mainland China, laying solid foundations for its future and long-term development.

The number of sales order received by the Group in 2008 decreased substantially primarily as a result of one of its major business partners discontinued purchasing the CDMA handsets from the Group because of the Restructuring during the second to third quarter of 2008. Fortunately, the Group's operation has been back on track since the completion of the Restructuring in October, 2008, and its monthly sales and shipments reached their record high in December, 2008 respectively as the new operator in the CDMA network was endeavoring to enhance the investment and promotion of the CDMA terminals and therefore, placed purchase orders with the Group. Also the Group further broadened its product lines during the year. About fifteen (15) dual-model smartphones were launched in 2008, namely, seven (7) CDMA/GSM dual-mode smartphones, three (3) TD/GSM dual-mode smartphones, three (3) GSM/GSM dual-mode smartphones and two (2) CDMA single-mode smartphones.

As an enterprise which places strong emphasis on the research and development for products and innovations, the Group has cultivated its core competitive edge through the perseverant efforts on independently development and technological innovation. The Group has evolved to be one of the strongest smartphone developers in Mainland China. It was granted "the State Scientific and Technological Progress Second Award" for its initiative achievement in the technical research on dual-mode dual-working smartphone by China's central government in January, 2008.

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- \* HSDPA (High-Speed Downlink Packet Access) is a 3G (third generation) mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, which allows networks based on Universal Mobile Telecommunications System (UMTS) to have higher data transfer speeds and capacity. Current HSDPA deployments support down-link speeds of 1.8, 3.6, 7.2 and 14.4 Mbit/s.
  - \*\* EVDO (Evolution-Data Optimized or Evolution-Data only), abbreviated as EV-DO or and often EV, is a telecommunications standard for the wireless transmission of data through radio signals, typically for broadband Internet access. It uses multiplexing techniques including Code division multiple access (CDMA) as well as Time division multiple access (TDMA) to maximize both individual user's throughput and the overall system throughput. It is standardized by 3rd Generation Partnership Project 2 (3GPP2) as part of the CDMA2000 family of standards and has been adopted by many mobile phone service providers around the world – particularly those previously employing CDMA networks. It is also used on the Globalstar satellite phone network.

## Chairman's Statement



The Group succeeded in taking the opportunities in the CDMA network expansion projects and the large-scale trial commercialization of TD-SCDMA in 2008. On the CDMA network products, the Group increased investments in the research and development of CDMA/GSM dual-mode products and won a large share in the first purchase of China Telecommunications Limited (the "China Telecom") in October of 2008. On the TD-SCDMA/GSM products, the Group has made significant achievements both on its products and its initial technologies. The Group always keeps coordinate pace with the network operators and the market demands. Particularly, by making prompt response to the network operator's demand in tailor-made products, the Group successfully launched China Mainland's first TD-SCDMA/CMMB\*\*\* smartphone (Coolpad 6168) with TV functionality in August, 2008, which was tailor-made for China Mobile Limited (the "China Mobile") as a TV handset for the volunteers and officials of the 2008 Beijing Olympic Games. In addition, the Group has long been involved in the research on CDMA2000 and WCDMA standard technologies, hence the Group has a full range of products and solutions for all 3G standards. Also the Group has made substantial investment in the research and development in the smartphone related technology and applications, such as Wireless Internet, GPS, Multimedia, Video, Games, and has made great achievements. The management of the Group (the "Management") strongly believes these achievements have paved a solid way for the Group's future growth.

The Group placed emphasis on cooperation with a number of well-known global technologies expert companies, like Microsoft, Qualcomm, Datang and TI. The Group now has been one of the biggest developers around the world specializing in operating system based on Windows CE through deep cooperation with Microsoft. The Group also enhanced the cooperation with Qualcomm and Datang to develop application software based on their new developed chipsets.

The Group launched a series of marketing and promotion initiatives to improve its Coolpad brand awareness and corporate image, which would further intensify its market competition and strengthen its market positioning. The Group has established a sound CDMA products sales channel in Mainland China as well as an after-sale service network in order to capture higher market share and enhance its consumers' satisfaction.

The Group put strong emphasis on sound financial management and general operation efficiency. Especially, the Group has taken great efforts to realign its organizational structure which resulted in a consolidated research and development center being built in 2008.

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\*\*\* CMMB (China Multimedia Mobile Broadcasting) is a mobile television and multimedia standard developed and specified in Mainland China by the State Administration of Radio, Film, and Television (SARFT). It is based on the satellite and terrestrial interactive multiservice infrastructure (STiMi), developed by TiMiTech, a company formed by the Chinese Academy of Broadcasting Science.

### Prospects of the Group for 2009

There are three mobile operators in Mainland China since the completion of the Restructuring in the second half year of 2008. And it will be a 3G era since the 3G licenses are issued to them in January, 2009. Therefore, looking to the year ahead, there will be more opportunities than challenges presented in the domestic telecommunications market, especially for those manufacturers with strong research and development capabilities. As a leading provider of CDMA handsets, the Group is expected to enjoy significant growth in the CDMA handsets market after the Restructuring. As the 3G era is approaching, it is also expected that it will increasingly stimulate the market demand of smartphone. The Group, as one of the major high-end smartphone developers, would be benefited from the fast growth of smartphone demand with the gradual roll-out of the 3G mobile phone service in Mainland China in the coming years. Moreover, it is generally anticipated that 2G and 3G mobile networks will co-exist for a long time, thus the dual-mode smartphone will be blooming in such period.

To leverage on the presented opportunities, the Group in 2009 will continue to carry out the strategies of product differentiation, research and development capabilities enhancement, cooperation with domestic telecommunications operators strengthening, and product and service quality as well as its administrative efficiency improvement, in order to sustain a rapid business growth in the coming year.

The Group will further consolidate its position in the CDMA network by rolling out innovative and competitive products in 2009. The Group has scheduled to roll out eight (8) CDMA-GSM dual-mode models and four (4) CDMA single-mode smartphones. As a major 3G smartphone developer in Mainland China, the Group plans to develop three (3) TD-SCDMA(HSDPA) dual-mode models and four (4) CDMA1X2000 (EVDO)/GSM dual-mode models for 3G smartphone. Additionally, the Group is trying to launch a series of wireless data cards and wireless netbook for the surging 3G market. Thus the Group believes its business scope will be further broadened and strengthened in the near future.

According to the Group's product strategy in 2009, it will enhance the mid-end prices concentration in its product's portfolio, and it is also trying to penetrate into the entry level handset market as the Group's production scale is strengthened. Thus, the Management expects the Group's gross margin may decrease with the drop of its average sales price in 2009. On the other hand, the Management believes the Group's strong products portfolio will play an important and core role in China's smartphone market and the income source in 2009 will expand as a result of the optimization of its products mix.

Innovation is the Group's competitive advantage. The Group will continue to allocate more resources into the innovation of new technologies and competitive products, especially in the 3G dual-mode products and related applications. The Group will further improve its research and development platform and wireless data solutions service. Through standardizing and opening its software development platform, the Group intends to allow more third-party applications to operate on its Coolpad terminals. In order to enhance its core competitiveness, the Group will take new ventures to develop the wireless internet mobile and its wireless data solutions service in 2009.

In order to deepen the customized applications in the 3G products, the Group will conduct joint researches in the application software based on new developed chipsets with its suppliers, like Qualcomm, Datang, and Microsoft, etc. Also the Group intends to develop an Android smartphone through close collaboration with its developer in 2009. Moreover, the Group will make continuous efforts to reduce costs through design and engineering innovation.

## Chairman's Statement



The Group endeavors to expand its sales channel and strengthen its brand recognition. In 2009, it planned to expand its sales network by opening more service shops in Mainland China. In brand promotion, the Group will cooperate with the network operators to enlarge the popularity of the Coolpad products and image by erecting more outdoor advertisements for some customized and competitive products in places where the target consumers of the high-end products gather, and increasing the number of image shops in some major municipal cities of the PRC.

The Group will further enhance the cooperation with its business partners to quickly develop customized products and transcendent service to cast different end-users' demand, such as corporate clients and general consumers.

The Group's new manufacturing facility located at Songshan Lake Industrial Park in Dongguan city is currently under construction. By the end of 2009, the Group will relocate its manufacturing lines to the new production base for incremental production, material storage and co-location of some dispersed manufacturing operations. The new base will remarkably enlarge the Group's production scale and allow the Group to effectively control its manufacturing cost.

The Group will continue to embrace the corporate culture of hard working to propel business development. And it's committed maintaining outstanding corporate governance, enhancing corporate transparency and facilitating communication with investors and the public.

The Management believes it will be a future prospect if the Group could firmly grasp the opportunities ahead in Mainland China's telecommunications market.

### Acknowledgements

On behalf of the Board and the Management, I would like to express our sincere gratitude to all our shareholders, customers, suppliers and business partners for their faithful support. Also, I would like to thank our staff members for their valuable contribution and exertions over the past years.

**Guo Deying**

*Chairman*

Hong Kong, 7 April, 2009

# Enterprise's Milestones in Review



JANUARY, 2008

## JANUARY, 2008

- Yulong Shenzhen was granted *2007 State Scientific and Technological Progress Second Award* by the State Council of the PRC for its CDMA/GSM dual-mode dual-working terminal project on 8 January 2008.

## FEBRUARY, 2008

- Coolpad 6260 TD-SCDMA/GSM dual-mode smartphone was issued to the 3G Network Access License for telecommunications equipment by the former Ministry of Information Industry of the PRC.

## JULY, 2008

- Mr. Guo Deying, the CEO and chairman of the Company, was awarded *Mayor Award of Shenzhen* by the Shenzhen Municipal Government with RMB one million.

## AUGUST, 2008

- Coolpad 6168 TD-SCDMA/CMMB dual-mode smartphone with digital TV functionality was first launched in Mainland China for the 2008 Beijing Olympic Games.



## Enterprise's Milestones in Review

### OCTOBER, 2008

- Coolpad 6168 handset model was granted the highest honor of the competition – Comprehensive Gold Medal, as well as the Gold Medal in Multi-Media Group on the first Mainland China's Handset Design Competition on 13 October 2008.
- The Company entered into a legally binding agreement on the supply of 200,000 units CDMA terminal devices with eSurfing Telecom Terminal Co., Ltd., a wholly-owned subsidiary of China Telecom (Stock Code: 0728.HK).

### NOVEMBER, 2008

- The Company won *Deloitte Technology Fast 50 China 2008* and *Deloitte Technology Fast 500 Asia Pacific 2008* rankings in the 4th consecutive selections, respectively.

### DECEMBER, 2008

- The Company was first obtained the CMMB Network Access License in Mainland China for its TD-SCDMA/CMMB handsets by Ministry of Industry and Information Technology of the PRC.



為您 創造無限可能  
YOU MAY  
CREATE UNLIMITED



# Management Discussion and Analysis

The financial data below are extracted from the Group's audited financial statements prepared under HKFRSs. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young.

	Year ended 31 December (HK\$million)	
	2008	2007
Revenue		
CDMA/GSM Dual-mode Smartphone	<b>624.7</b>	1,039.4
GSM/GSM Dual-mode Smartphone	<b>146.1</b>	143.1
TD-SCDMA/GSM Dual-mode Smartphone	<b>56.5</b>	–
CDMA Single-mode Smartphone	<b>155.8</b>	83.3
Other Products	<b>24.0</b>	11.9
Total revenue	<b>1,007.1</b>	1,277.7
Cost of sales	<b>(649.0)</b>	(756.4)
Gross profit	<b>358.1</b>	521.3
Other income and gains	<b>59.5</b>	64.5
Selling and distribution costs	<b>(200.9)</b>	(213.5)
Administrative expenses	<b>(256.8)</b>	(192.5)
Other expenses	<b>(1.0)</b>	(0.7)
Financial costs	<b>(22.7)</b>	(11.6)
Share of profit and loss of an associate	<b>(0.5)</b>	–
Profit/(loss) before tax	<b>(64.3)</b>	167.5
Tax	<b>(11.8)</b>	–
Profit/(loss) after tax	<b>(76.1)</b>	167.5

## 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	Year ended 31 December			
	2008	As a percentage of total revenue	2007	As a percentage of total revenue
	Revenue HK\$million		Revenue HK\$million	
<b>Smartphone</b>				
CDMA/GSM Dual-mode Smartphone	<b>624.7</b>	<b>62.0%</b>	1,039.4	81.3%
GSM/GSM Dual-mode Smartphone	<b>146.1</b>	<b>14.5%</b>	143.1	11.2%
TD-SCDMA/GSM Dual-mode Smartphone	<b>56.5</b>	<b>5.6%</b>	–	–
CDMA Single-mode Smartphone	<b>155.8</b>	<b>15.5%</b>	83.3	6.6%
Subtotal	<b>983.1</b>	<b>97.6%</b>	1,265.8	99.1%
<b>Other Products</b>	<b>24.0</b>	<b>2.4%</b>	11.9	0.9%
<b>Total</b>	<b>1,007.1</b>	<b>100.0%</b>	1,277.7	100.0%





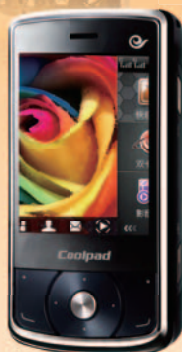
**TOTAL  
REVENUE  
HK\$1,007.1  
MILLION**

### Revenue Analyzed By Product Segments (Continued)

In 2008, total consolidated revenue of the Group was HK\$1,007.1 million, representing a decrease of 21.2% compared with HK\$1,277.7 million in 2007. The decline of revenue was mainly attributable to a considerable decrease in revenue from CDMA/GSM dual-mode smartphone segment.

The Group's revenue from CDMA/GSM dual-mode smartphone business declined considerably by 39.9% from HK\$1,039.4 million in 2007 to HK\$624.7 million in 2008. The decline was mainly attributable to the serious impact of the Restructuring, which made the Group's business on CDMA/GSM high-end dual-mode smartphone shocked absolutely for nearly six months in the process of the transition of the CDMA network operators in 2008.

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



The Group's revenue from GSM/GSM dual-mode smartphone business slightly increased by 2.1% from HK\$143.1 million in 2007 to HK\$146.1 million in 2008. The slight increase was because the GSM network operator in Mainland China had not tried to promote the Group's customized handsets during the year under review.

The Group recorded a revenue of HK\$56.5 million in the TD-SCDMA/GSM dual-mode smartphone business, representing approximately 5.6% of the Group's total revenue, since the TD-SCDMA trial network was commenced to commercialize in ten cities of Mainland China on 1 April 2008. The Group successfully launched two TD-SCDMA/GSM high-end dual-mode smartphone and one TD-SCDMA/CMMB high-end TV-enable smartphone, and approximately 15,000 units were purchased by the network operator during the year. As such the Group became one of the major domestic suppliers for TD-SCDMA handsets in Mainland China.

## Management Discussion and Analysis

The Group's revenue from CDMA single-mode smartphone increased from about HK\$83.3 million in 2007 to HK\$155.8 million in 2008, representing a significant increase of approximately 87.0%, which accounted for 15.5% of the Group's total revenue in 2008. The increase of revenue was because the Group successfully launched two cutting-edge models featuring mid-end handwriting smartphone to China Telecom in October, 2008.

The Group's revenue from other products segment increased from HK\$11.9 million in 2007 to HK\$24.0 million in 2008, representing a growth of approximately 101.7%. The revenue from the segment was primarily generated from the sales of the accessories of smartphone and related products, which accounted for 2.4% of the Group's total revenue in 2008, up 1.5% as compared with 0.9% in 2007.

Furthermore, the Group's sales revenue contributed by the dual-mode smartphone accounted for approximately 82.1% of its total sales in 2008, or a drop of 10.4% as compared with 92.5% in 2007. It reflected the fact the research and development of the dual-mode smartphone was still the Group's competitive advantages during the year under review, in particular, in the business of CDMA/GSM dual-mode smartphone in the CDMA network, also illustrated the Group had actively enhanced to optimize its products' diversification and structure.



PERCENTAGE OF  
DUAL-MODE  
SMARTPHONE  
BUSINESS  
**82.1%**

### Gross Profit

Product Segments	Year ended 31 December			
	2008		2007	
	Gross profit HK\$million	Gross profit margin	Gross profit HK\$million	Gross profit margin
<b>Smartphone</b>				
CDMA/GSM Dual-mode Smartphone	202.6	32.4%	450.2	43.3%
GSM/GSM Dual-mode Smartphone	37.0	25.3%	48.8	34.1%
TD-SCDMA/GSM Dual-mode Smartphone	26.0	46.0%	–	–
CDMA Single-mode Smartphone	81.4	52.3%	20.4	24.5%
Subtotal	347.0	–	519.4	–
<b>Other Products</b>	11.1	46.3%	1.9	16.0%
<b>Total</b>	<b>358.1</b>	<b>35.6%</b>	521.3	40.8%

The gross profit margin of the Group in 2008 dropped from 40.8% in 2007 to 35.6% in 2008, while the Group's gross profit in 2008 was HK\$358.1 million, representing a decrease of 31.3% as compared with HK\$521.3 million in 2007. The decrease in the Group's gross profit margin was primarily due to the decrease in the gross profit margin of CDMA/GSM dual-mode smartphone and GSM/GSM dual-mode smartphone, which was partially offset by the improved gross profit margin for TD-SCDMA/GSM dual-mode smartphone, CDMA single-mode smartphone and other products.

The Group's gross profit margin of CDMA/GSM dual-mode smartphone dropped from 43.3% in 2007 to 32.4% in 2008. The decrease was mainly attributable to the Group lowered the average sales price to promote the sales volume during the Restructure.

The Group's gross profit margin of GSM/GSM dual-mode smartphone dropped from 34.1% in 2007 to 25.3% in 2008, due primarily to a drop in sales volume and lower selling prices for the Group's GSM/GSM dual-mode smartphone that was introduced to the market during this year.

The Group's gross profit and gross profit margin of TD-SCDMA/GSM dual-mode smartphone was HK\$26.0 million and 46.0% in 2008 respectively, which accounted for 7.3% of the Group's total gross profit in 2008. The result from the segment has broadened the Group's revenue source; also partially offset the decline of the gross profit margin from CDMA/GSM dual-mode smartphone and GSM/GSM dual-mode smartphone.

The Group's gross profit margin of CDMA single-mode smartphone rose to 52.3% in 2008 from 24.5% in 2007 owing to effective cost reductions with the growth of its sales revenue from this segment in 2008. During the year under review, the Group sold more than 100,000 units of CDMA single-mode smartphone, representing an increase of approximately 100% in sales volume as compared with approximately 50,000 units in 2007.

The Group's gross profit margin in other products segment rose to 46.3% in 2008 from 16.0% in 2007, mainly due to a decrease in the material costs of the products' accessories with a relatively higher pricing policy.



### Other Income and Gains

Other income and gains of the Group amounted to HK\$59.5 million in 2008, representing a decrease of 7.8% as compared with HK\$64.5 million in 2007. The decrease was mainly attributable to the decrease in the value-added tax rebate of the software sales.

### Selling and Distribution Costs

	Year ended 31 December	
	2008	2007
Selling and distribution costs ( <i>HK\$million</i> )	<b>200.9</b>	213.5
Selling and distribution costs/total sales	<b>19.9%</b>	16.7%

Selling and distribution costs of the Group amounted to HK\$200.9 million in 2008, representing a 5.9% decrease as compared with HK\$213.5 million in 2007, although it accounted for 19.9% of the Group's total sales in 2008, up 3.2% as compared with 16.7% in 2007. The increase in selling and distribution costs as a percentage of sales in 2008 was mainly due to the increase in staff costs and brand promotion costs of the Group's selling and marketing personnel.

### Administrative Expenses

	Year ended 31 December	
	2008	2007
Administrative expenses ( <i>HK\$million</i> )	<b>256.8</b>	192.5
Administrative expenses/total sales	<b>25.5%</b>	15.1%

Administrative expenses of the Group increased by 33.4% from HK\$192.5 million in 2007 to HK\$256.8 million in 2008, accounting for 25.5% of the Group's total sales in 2008. The increase was mainly attributable to the increase in research and development costs in 2008.

### Other Expenses

The Group recorded other expenses of HK\$1.0 million for 2008, up HK\$0.3 million as compared with HK\$0.7 million in 2007. The increase was primarily attributable to the loss on disposal of items of property, plant and equipment in 2008.

### Finance Costs

Finance costs of the Group for 2008 increased by 95.7% as compare with HK\$11.6 million of 2007. The increase was due to a significant increase in the Group's amounts in interest-bearing bank borrowings.

### Tax

For the year ended 31 December 2008, the Group's income tax expenses amounted to HK\$11.8 million (2007: nil). The increase in the current year income tax expenses was mainly attributable to the expiration of the exempted corporate income tax period of Coolpad Software Tech (Shenzhen) Co., Ltd. and the deferred tax charge arising from the fair value gains of the Group's investment properties.

## Management Discussion and Analysis



### Net Profit/Loss

For the year ended 31 December 2008, the Group recorded a net loss of HK\$76.1 million. It was due primarily to (i) the steep drop in sales volume during the period of Restructuring; (ii) the drop in gross profit margin from 40.8% in 2007 to 35.6% in 2008; and (iii) a year-on-year increase in administrative expenses and finance costs of 33.4% and 95.7%, respectively.

### Gearing Ratio & the Basis of Calculation

The Group's gearing ratio for 2008 was 55%, up 14% points from 41% in 2007, attributable mainly to the increase in interest-bearing loans. The gearing ratio represented net debt divided by the capital plus net debt.

### Liquidity and Financial Resources

For the year ended 31 December 2008, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements.

Cash and cash equivalents of the Group as of 31 December 2008 amounted to HK\$124.9 million, while it was HK\$91.2 million as at 31 December 2007.

### Contingent Liabilities

As at 31 December 2008, the Group did not have any significant contingent liabilities.

### Pledge of Assets

As at 31 December 2008, the following Group's assets were pledged to secure the Group's bank loans, bills payable and for issuance of letters of credit:

- (i) the pledge of certain of the Group's buildings and investment properties situated in Mainland China, which had an aggregate carrying value at the balance sheet date of approximately HK\$225,290,000 (2007: nil);
- (ii) the pledge of the Group's leasehold land which had an aggregate carrying value at the balance sheet date of approximately HK\$63,437,000 (2007: HK\$12,155,000);
- (iii) charges over the Group's rental income over certain investment properties (2007: nil);
- (iv) floating charges over the Group's trade receivables totalling HK\$269,893,000 (2007: nil);
- (v) floating charges over the Group's inventories totalling HK\$235,681,000 (2007: nil); and
- (vi) the pledge of the Group's bank deposits totalling HK\$69,533,000 (2007: HK\$29,204,000).



### Business Activities

Against the backdrop of the difficult economic environment and the Restructuring in the year under review, the Group still achieved some breakthrough in the field of mobile phone core technologies and its business expansion. Thanks to all its dedicated staff efforts, the Group is able to leverage opportunities presented by the domestic operators' investment realignments as well as the swift growth in the 3G technologies in China's smartphone market. The Group has invested approximately HK\$100 million in the research and development on TD-SCDMA (HSDPA)/GSM and CDMA1X2000 (EVDO)/GSM, and CDMA/GSM dual-mode smartphone. As a result, the improving competitive advantages on these technologies enabled the Group to strengthen its scope and depth of cooperation with telecommunications operators in Mainland China, laying solid foundations for its future and long-term development.

The number of sales order received by the Group in 2008 decreased substantially primarily as a result of one of its major business partners discontinued purchasing the CDMA handsets from the Group because of the Restructuring during the second to third quarter of 2008. Fortunately, the Group's operation has been back on track since the completion of the Restructuring in October, 2008, and its monthly sales and shipments reached their record high in December 2008 respectively as the new operator in the CDMA network was endeavoring to enhance the investment and promotion of the CDMA terminals and therefore, placed purchase orders with the Group. Also the Group further broadened its product lines during the year. About fifteen (15) dual-model smartphones were launched in 2008, namely, seven (7) CDMA/GSM dual-mode smartphones, three (3) TD-SCDMA/GSM dual-mode smartphones, three (3) GSM/GSM dual-mode smartphones and two (2) CDMA single-mode smartphones.

As an enterprise which places strong emphasis on the research and development for products and innovations, the Group has cultivated its core competitive edge through the perseverant efforts on internal research and development. The Group evolved to be one of the strongest smartphone developers in Mainland China. It was granted "the State Scientific and Technological Progress Second Award" for its initiative achievement in the technical research on dual-mode smartphone by China's central government in January, 2008.

The Group succeeded in taking the opportunities in the CDMA network expansion projects and the large-scale trial commercialization of TD-SCDMA in 2008. On the CDMA products, the Group increased investments in the research and development of CDMA/GSM dual-mode products and won a large share in the first purchase of China Telecom in October of 2008. On the TD-SCDMA/GSM products, the Group has made significant achievements both on its products and its initial technologies. The Group always keeps coordinate pace with the network operators and the market demands on the product. Particularly, by making prompt response to the network operator's demand in tailor-made products, the Group successfully launched China Mainland's first TD-SCDMA/CMMB smartphone (Coolpad 6168) with TV functionality in August 2008, which was tailor-made for China Mobile as a TV handset for the volunteers and officials of the Beijing Olympic Games. In addition, the Group has long been involved in the research on CDMA2000 and WCDMA standards, hence the Group has a full range of products and solutions for all 3G standards. Also the Group has made substantial investment in the research and development in the smartphone related technology and applications, such as Wireless Internet, GPS, Multimedia, Video, Game, and has made great achievements. The Management strongly believes these achievements have paved a solid way for the Group's future growth.

The Group placed emphasis on cooperation with a number of well-known global technologies expert companies, like Microsoft, Qualcomm, Datang and TI. At present, the Group is one of the biggest developers around the world specializing in operating system based on Windows CE through deep cooperation with Microsoft. The Group also enhanced the cooperation with Qualcomm and Datang to develop application software based on their new developed chipset.

### Business Activities (Continued)

The Group launched a series of marketing and promotion initiatives to improve its Coolpad brand awareness and corporate image, which would further increase its market competitiveness and strengthen its market positioning. The Group has established a sound CDMA products sales channel in Mainland China as well as an after-sale service network in order to capture higher market share and enhance its consumers' satisfaction.

The Group put strong emphasis on sound financial management and general operation efficiency. Especially, the Group has taken great efforts to realign its organizational structure which resulted in a consolidated the research and development center being built in 2008.

### Business Outlook

There are three mobile operators in Mainland China since the completion of the Restructuring in the second half of 2008. And it will be a 3G era since the 3G licenses were issued to them in January 2009. Therefore, looking to the year ahead, there will be more opportunities than challenges presented in the domestic telecommunications market, especially for those manufacturers with strong research and development capabilities. As a leading provider of CDMA handsets, the Group is expected to enjoy healthy growth in the CDMA handsets market after the Restructuring. As the 3G era is approaching, it is also expected that it will increasingly stimulate the market demand of smartphone. The Group, as one of the major high-end smartphone developers, would be benefited from the fast growth of smartphone market following the gradual roll-out of 3G mobile phone service in Mainland China in the coming years. Moreover, it is generally anticipated that 2G and 3G mobile networks will co-exist for a long time, thus the dual-mode smartphone will be blooming in such period.

To leverage on the presented opportunities, the Group in 2009 will continue to carry out the strategies of product differentiation, research and development capabilities enhancement, cooperation with domestic telecom operators strengthening, and product and service quality as well as its administrative efficiency improvement, in order to sustain a rapid business growth in the coming year.

The Group will further consolidate its position in the CDMA network by rolling out innovative and competitive products in 2009. The Group has scheduled to roll out eight CDMA/GSM dual-mode models and four CDMA single-mode smartphones. As a major 3G smartphone developer in Mainland China, the Group plans to develop three TD-SCDMA(HSDPA)/GSM dual-mode models, four GSM/GSM dual-mode models and four CDMA1X2000 (EVDO)/GSM dual-mode models for 3G smartphone. Additionally, the Group is trying to launch a series of wireless data cards and wireless netbook for the surging 3G market. Thus the Group believes its business scope will be further broadened and strengthened in the near future.

According to the Group's product strategy in 2009, it will enhance the mid-end prices concentration in its product portfolio, and it is also trying to penetrate into the entry level handset market. Thus, the Management expects the Group's gross profit margin may decrease with the drop of its average sales price in 2009. On the other hand, the Management believes the Group's strong product portfolio will play an important and core role in China's smartphone market and the income sources will expand as a result of the optimization of its products mix.

Innovation is the Group's competitive advantage. The Group will continue to allocate more resources into the innovation of new technologies and competitive products, especially in the 3G dual-mode products and related applications. The Group will further improve its research and development platform and wireless data solutions service. Through standardizing and opening its software development platform, the Group intends to allow more third-party applications to operate on its Coolpad terminals. In order to enhance its core competitiveness, the Group will take new ventures to develop the wireless internet mobile and its wireless data solutions service in 2009.

## Management Discussion and Analysis



In order to deepen the customized applications in the 3G products, the Group will conduct joint researches in application software based on new developed chipset with its suppliers, like Qualcomm, Datang, and Microsoft, etc. Also the Group intends to develop an Android smartphone through close collaboration with its developer in 2009. Moreover, the Group will make continuous efforts in reducing costs through design and engineering innovation.

The Group endeavors to expand its sales channel and strengthen its brand recognition. In 2009, it plans to expand its sales network. In brand promotion, the Group will cooperate with the network operators to enlarge the popularity of the Coolpad products and image by erecting more outdoor advertisements for some customized and competitive products in places where the target consumers of the high-end products gather, and increasing the number of image shops in some major municipal cities of China.

The Group will further enhance the cooperation with its business partners to quickly develop customized products and transcendent service to meet different end-users' demand, such as corporate clients and general consumers.

The Group's new manufacturing facility located at Songshan Lake Industrial Park in Dongguan city is currently under construction. By the end of 2009, the Group will relocate its manufacturing lines to the new production base for incremental production, material storage and co-location of some dispersed manufacturing operations. The new base will remarkably enlarge the Group's production scale and allow the Group to effectively control its manufacturing cost.

The Group will continue to embrace the corporate culture of hard working to propel business development. It is committed to maintain outstanding corporate governance, enhancing corporate transparency and facilitating communication with investors and the public.

The Management believes there will be a future prospect ahead if the Group could firmly grasp the opportunities in China's telecommunications market.

### Foreign Exchange Exposure

During the reporting period, the Group's expenses, assets and liabilities were mainly denominated in Renminbi (the "RMB"). Taking into account of 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 approximately HK\$253.4 million. The remuneration of the Group's employees was commensurated with their responsibilities and market rates, with discretionary bonuses and training given on a merit basis.

### Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.



# Corporate Governance Report



## Application of Corporate Governance Principles

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

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

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2008, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

## Board of Directors

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

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

## Board Composition

The Board currently comprises 9 directors, 4 of whom are executive directors, 1 is non-executive directors and 4 are independent non-executive directors ("INEDs"). The composition of the Board is set out as follows:

### Executive Directors

Mr. Guo Deying (*the chairman of the Board and CEO*)

Mr. Jiang Chao

Mr. Li Bin (appointed on 7 April 2009)

Mr. Li Wang (appointed on 7 April 2009)

### Non-Executive Directors

Ms. Yang Xiao

Mr. Ma Dehui (resigned on 7 April 2009)

### Independent Non-Executive Directors

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

The biography of the directors are set out in the “Directors and Senior Management” on pages 29 to 31 of this annual report.

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

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

### Chairman and Chief Executive Officer

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

### Independent Non-executive Directors (“INEDs”)

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

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

Under Code Provision A.4.1 of the Code, non-executive directors should be appointed for specific terms, subject to re-election. Currently, all INEDs are appointed for a period of 1 year subject to renewal and retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.



### Board Operation

During the year ended 31 December 2008, the Board held seven meetings. Attendance of individual directors at the Board meetings in 2008 is as follows:

<b>Name of director</b>	<b>Number of meetings attended</b>
<b>Executive Directors</b>	
Mr. Guo Deying	7/7
Mr. Jiang Chao	7/7
<b>Non-executive Directors</b>	
Ms. Yang Xiao	7/7
Ms. Ma Dehui	7/7
<b>Independent Non-executive Directors</b>	
Mr. Chan King Chung	7/7
Dr. Huang Dazhan	7/7
Mr. Yang Xianzu	7/7
Mr. Xie Weixin	7/7

### Remuneration Committee

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

- (a) To make recommendations to the Board on policies and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and
- (b) To determine the remuneration packages for executive Directors and senior management and to make recommendations to the Board on the remuneration of non-executive Directors.

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

The Remuneration Committee had two meeting in 2008 which was attended by all the members of the Remuneration Committee, which was consulted by Mr. Guo Deying, the chairman of the Company, to review the remuneration packages of Directors and senior management of the Group and share option scheme.

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

### Provision of Information to Directors

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

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



### Securities Transactions by Directors

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

### Audit Committee

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

In 2008, the Audit Committee held four meetings. The attendance record of each member of the Audit Committee is set out below:

<b>Name</b>	<b>Number of meetings attended</b>
Mr. Chan King Chung ( <i>Chairman</i> )	4/4
Dr. Huang Dazhan	4/4
Mr. Yang Xianzu	4/4
Mr. Xie Weixin	4/4

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

### Accountability and Internal Control

The Board has overall for maintaining a proper and effective system of internal control of the Group. The Directors have reviewed and considered that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflected amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the Management with an appropriate consideration to materiality.

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

### Nomination of Directors

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



### External Auditors

Ernst & Young has been appointed as the External Auditors of the Company for the year under review. An amount of approximately RMB2.16 million (equivalent to HK\$2.46 million) was charged by Ernst & Young for its audit services provided to the Group (2007: HK\$2.05 million). The responsibilities of the external auditors with respect to the financial reporting are set out in the section headed "Independent Auditors' Report" on page 41 to 42 of this report.

### Communication With Shareholders

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

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

# Directors and Senior Management



## Directors

### Executive Directors

#### **Mr. GUO Deying**

Mr. GUO Deying, aged 44, is an executive Director, the chairman and chief executive officer of the Group. He is responsible for the Group's overall management and strategic development. Mr. Guo has been the chairman, the legal representative and the general manager of the Group since its establishment in 1993. Mr. Guo has about 16 years of experience in the wireless communications industry. Mr. Guo was certified as an engineer by Shenzhen City Engineering Technical Central Examination Board (深圳市工程技術中評委) in December 1991. He received a master's degree in engineering from Shanghai Jiao Tong University (上海交通大學). Mr. Guo was appointed as a guest professor by Xidian University (西安電子科技大學) for its computer network and information security department in November 2003. In October 2004, Mr. Guo was accredited as Outstanding Entrepreneur of Private-owned Technology Companies in the PRC (中國優秀民營科技企業家) by China National Industrial and Commercial Association (中華全國工商業聯合會) and China Private-owned Technology Industrialists Association (中國民營科技實業家協會). In July, 2008, Mr. Guo was awarded Mayor Award of Shenzhen (深圳市長獎) by the Shenzhen Municipal Government.

#### **Mr. JIANG Chao**

Mr. JIANG Chao, aged 38, is an executive Director, the chief financial officer, vice president of the Group, and the qualified accountant and company secretary of the Company. Mr. Jiang is responsible primarily for the finance and administrative functions of the Group. He is an associate member of the Association of Chartered Certified Accountants and a certified public accountant in the PRC. Mr. Jiang joined the Group in June 2002. Mr. Jiang has about 16 years of experience in accounting and finance. Prior to joining the Group, he had worked for the State Audit Bureau. Mr. Jiang had also worked for Qiaoxing Electronic Company Limited (僑興電子有限公司, NASDAQ: XING) and Shenzhen Zhong Xing Telecom Equipment Company Limited (深圳市中興通訊設備有限公司, 00763.HK), where he was responsible for financial and accounting functions. Mr. Jiang obtained a bachelor's degree in economics from SUN Yat-Sen University (中山大學) in 1991.

#### **Mr. LI Bin (appointed on 7 April 2009)**

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

#### **Mr. LI Wang (appointed on 7 April 2009)**

Mr. LI Wang, aged 36, obtained a master's degree in business administration from Dalian University of Technology (大連理工大學) in 1997. Mr. Li has 11 years of experience in the information technology industry. Mr. Li joined the Group in March 2001. Before joining the Group, he worked for Hua Wei Technology Company Limited (華為技術有限公司). Before his appointment as an executive director of the Company, he was a deputy general manager of the Group and was responsible for the Group's sales and marketing functions.

## Directors and Senior Management



### Directors (Continued)

#### Non-executive Directors

##### **Ms. MA Dehui (resigned on 7 April 2009)**

Ms. MA Dehui, aged 78, is a non-executive Director. Ms. Ma joined the Group in August 2003. She was an associate professor of the faculty of computer science and technology department in South Western University for Nationalities (西南民族大學). Ms. Ma is the mother of Ms. Yang Xiao, a non-executive Director.

##### **Ms. YANG Xiao**

Ms. YANG Xiao, aged 40, is a non-executive Director. Ms. Yang joined the Group in August 2001. She graduated with a diploma from Shenzhen University (深圳大學). During 1992 to 1995, Ms. Yang worked in Shenzhen Transport Bureau (深圳市運輸局). Ms. Yang is the spouse of Mr. Guo.

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

#### Independent Non-executive Directors

##### **Mr. CHAN King Chung**

Mr. CHAN King Chung, aged 46, is an independent non-executive Director and joined the Group in November 2004. He obtained a bachelor's degree in business administration and accountancy from the Chinese University of Hong Kong in 1987 and City University of Hong Kong in 1993, respectively. Mr. Chan also obtained a Master degree in accountancy and business administration in 1994. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Company Secretaries. With more than 15 years of experience in corporate governance, management and financial controlling, Mr. Chan is currently the company secretary and qualified accountant of HyComm Wireless Limited (华脉无线通信有限公司) (the shares of which are listed on the Main Board of the Stock Exchange, 0499.HK).

##### **Dr. HUANG Dazhan**

Dr. HUANG Dazhan, aged 51, is an independent non-executive Director and joined the Group in November 2004. Dr. Huang obtained his doctorate degree from the Victoria University of Manchester, England, the United Kingdom in 1993. Dr. Huang now serves at China Merchants Group.

##### **Mr. XIE Weixin**

Mr. XIE Weixin, aged 67, is an independent non-executive Director and joined the Group in November 2004. Mr. Xie graduated from the Department of Electronics Engineering of Xi'an University of Electronics Technology in 1965. Mr. Xie is currently a professor of electrical engineering of Shenzhen University.

##### **Mr. YANG Xianzu**

Mr. YANG Xianzu, aged 69, an independent non-executive Director and joined the Group in May 2007. He graduated from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications in 1965 and served as the Deputy Director General of the Post and Telecommunications Bureau of Hubei Province and the Director General of the Post and Telecommunications Administration of Henan Province. From 1990 to 1999, Mr. Yang served as the Vice Minister of the Ministry of Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. He was the chairman and chief executive officer of China Unicom Limited (the shares of which are listed on the Main Board of the Stock Exchange, 0762.HK) from 2000 to 2003. He is currently an independent non-executive director of Dongfeng Motor Group Company Limited (the shares of which are listed on the Main Board of the Stock Exchange, 0489.HK) and CITIC 1616 Holding Limited (the shares of which are listed on the main Board of the Stock Exchange, Stock code: 1883). Mr. Yang has over 36 years of experience in the telecommunications industry in China. Mr. Yang has extensive knowledge on telecommunications operations and control.

## Directors and Senior Management

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### Senior Management

#### **Mr. LI Liuqun**

Mr. LI Liuqun, aged 46, is a deputy general manager of the Group and is responsible for logistic, purchasing and production functions. He has about 22 years of experience in the wireless telecommunications industry. Prior to joining the Group in December 2000, he worked for State 760 Factory (國營第七六零廠). He obtained a bachelor's degree in engineering from Xi'an University of Electronics Technology (西安電信工程學院) in 1985.

#### **Mr. ZHANG Hanwu**

Mr. ZHANG Hanwu, aged 46, is a deputy general manager of the Group and is responsible for the human resources and administration functions. Mr. Zhang has 20 years of specialized experience in human resources and administration in various industries. Prior to joining the Group in 2006, he worked in fast-consuming goods industry, communications system equipment manufacture industry and communications terminal equipment manufacture industry.



# Report of the Directors

The directors of the Company present their report and the audited financial statements of the Group for the year ended 31 December 2008.

## Principal Activities

The Group is a wireless solution and equipment provider in Mainland China. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## Results and Dividends

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 49.

The Board did not recommend any dividends for the year ended 31 December 2008.

## Summary Financial Information

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

	Year ended 31 December				
	2008* HK\$'000	2007* HK\$'000	2006* HK\$'000	2005* HK\$'000	2004* HK\$'000
RESULTS					
Revenue	<b>1,007,135</b>	1,277,663	640,855	353,995	245,545
Profit/(loss) before tax	<b>(64,307)</b>	167,520	53,684	60,318	51,195
Tax	<b>(11,769)</b>	–	–	(9,442)	(7,528)
Profit/(loss) for the year	<b>(76,076)</b>	167,520	53,684	50,876	43,667
Profit/(loss) attributable to ordinary equity holders of the Company	<b>(76,076)</b>	167,520	53,684	50,876	43,667



### Summary Financial Information (Continued)

	Year ended 31 December				
	2008* HK\$'000	2007* HK\$'000	2006* HK\$'000	2005* HK\$'000	2004* HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Non-current assets	<b>722,360</b>	432,000	168,586	64,468	39,485
Current assets	<b>862,915</b>	812,149	854,087	527,554	341,813
Non-current liabilities	<b>225,480</b>	91,083	102,939	2,035	1,191
Current liabilities	<b>718,696</b>	491,716	488,070	276,291	165,097
Net assets	<b>641,099</b>	661,350	431,664	313,696	215,010

\* Extracted from the published audited financial statements

### Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

### Share Capital and Share Options

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

### Share Award Plan

Details of movement in the Company's shares held for the share award plan (the "Share Award Plan") during the year are set out in note 34 to the financial statements.

### Pre-emptive Rights

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

### Purchase, Redemption or Sale of Listed Securities of the Company

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

### Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 35 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

### Distributable Reserves

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$240,307,000. The Company has not proposed any dividends for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK\$244,544,000 as at 31 December 2008, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

### Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 85% of the total sales for the year and sales to the largest customer included therein amounted to 29%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

### Directors

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

#### Executive directors:

Mr. Guo Deying (*Chairman and Chief Executive Officer*)  
Mr. Jiang Chao  
Mr. Li Bin (appointed on 7 April 2009)  
Mr. Li Wang (appointed on 7 April 2009)

#### Non-executive directors:

Ms. Yang Xiao  
Ms. Ma Dehui (resigned on 7 April 2009)

#### Independent non-executive directors:

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

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

In accordance with Article 86(3) of the Articles, Mr. Li Bin and Mr. Li Wang, executive Directors, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting (the "AGM") of the Company.

In accordance with Article 87(1) of the Articles, Mr. Guo Deying, an executive Director, Dr. Huang Dazhan and Mr. Xie Weixin, the independent non-executive Directors, will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

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

### Directors' and Senior Management's Biographies

Biographical details of the directors and the senior management of the Group are set out on pages 29 to 31 of the annual report.

### Directors' Service Contracts

Each of Mr. Guo Deying and Mr. Jiang Chao, executive Directors, has entered into a service agreement with the Company dated 14 April 2008 for an initial term of three years commencing from 21 November 2007.

Each of Mr. Li Bin and Mr. Li Wang, executive Directors, has entered into a service agreement with the Company dated 7 April 2009 for an initial term of three years commencing from 7 April 2009.

Each of the non-executive Directors has re-entered into a service agreement with the Company dated 21 November 2008 for an initial term of three years commencing from 21 November 2008.

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

None of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Directors' Remuneration

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

### Directors' Interests in Contracts

Save as disclosed in notes 24 and 39 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

At 31 December 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:

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)

### 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	37,952,000	-	831,171,248	869,123,248	42.60
Ms. Yang Xiao	1 & 2	-	831,171,248	37,952,000	-	831,171,248	869,123,248	42.60
Mr. Jiang Chao	3	-	-	-	37,952,000	-	37,952,000	1.86

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

Name of director	Note	Number of shares held, capacity and nature of interest			Percentage of issued share capital of the associated corporation
		Name 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, a non-executive director, the beneficiary objects of which include the minor children of Mr. Guo and Ms. Yang. Each of Mr. Guo and Ms. Yang is taken to be interested in the 831,171,248 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Unit Trust and by virtue of the interests of their minor children under the Barrie Bay Unit Trust. The long positions in the Company's share of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of a discretionary trust" in the table headed "Long positions in shares of the Company" above refers to the same 831,171,248 shares.

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

- Mr. Guo is interested in the 37,952,000 shares held by Wintech Consultants Limited as he was the sole director of Wintech Consultants Limited.
- Mr. Jiang Chao, an executive director, is interested in the 37,952,000 shares held by Wintech Consultants Limited as he is 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.

### Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares and Debentures

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

#### Long positions in shares of the Company:

Name	Notes	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited ("Data Dreamland")	1	831,171,248	Beneficial owner	831,171,248	40.74
Barrie Bay Limited ("Barrie Bay")	2	831,171,248	Interest of controlled corporation	831,171,248	40.74
HSBC International Trustee Limited ("HSBC Trustee")	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 31 December 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.

### Directors' Rights to Acquire Shares or Debentures

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

## Report of the Directors

### Share Option Scheme

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

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

Name or category of participant	At 1 January 2008	Number of share options					At 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
		Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year					
<b>Employees</b>										
In aggregate – granted on 6 June 2005	64,000,000	–	(16,000,000)	(48,000,000)	–	–	6-06-05	7-06-05 to 6-06-08	0.175	
In aggregate – granted on 20 June 2005	9,904,000	–	(672,000)	–	(384,000)	8,848,000	20-06-05	28-06-05 to 27-06-09	0.2175	
In aggregate – granted on 27 July 2006	37,712,000	–	(468,000)	–	(1,632,000)	35,612,000	27-07-06	27-07-06 to 26-07-10	0.4615	
In aggregate – granted on 27 July 2006	4,416,000	–	–	–	(672,000)	3,744,000	27-07-06	27-07-07 to 26-07-11	0.4615	
In aggregate – granted on 18 September 2007	27,512,000	–	–	–	(7,552,000)	19,960,000	18-09-07	18-09-08 to 17-09-12	1.415	
In aggregate – granted on 18 September 2007	3,840,000	–	–	–	(384,000)	3,456,000	18-09-07	18-09-10 to 17-09-14	1.415	
In aggregate – granted on 16 January 2008	–	800,000	–	–	(800,000)	–	16-01-08	16-01-09 to 15-01-13	1.048	
In aggregate – granted on 20 May 2008	–	20,180,000	–	–	(5,324,000)	14,856,000	20-05-08	20-05-09 to 19-05-13	0.674	
In aggregate – granted on 20 May 2008	–	8,216,000	–	–	(1,096,000)	7,120,000	20-05-08	20-05-10 to 19-05-14	0.674	
In aggregate – granted on 20 May 2008	–	15,048,000	–	–	(1,728,000)	13,320,000	20-05-08	20-05-11 to 19-05-15	0.674	
In aggregate – granted on 20 May 2008	–	3,984,000	–	–	(400,000)	3,584,000	20-05-08	20-05-14 to 19-05-18	0.674	
<b>Subtotal</b>	<b>147,384,000</b>	<b>48,228,000</b>	<b>(17,140,000)</b>	<b>(48,000,000)</b>	<b>(19,972,000)</b>	<b>110,500,000</b>				
<b>Business consultants</b>	<b>8,000,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8,000,000</b>	<b>18-09-07</b>	<b>18-09-10 to 17-09-14</b>	<b>1.415</b>	
<b>Total</b>	<b>155,384,000</b>	<b>48,228,000</b>	<b>(17,140,000)</b>	<b>(48,000,000)</b>	<b>(19,972,000)</b>	<b>118,500,000</b>				

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

- \* The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- \*\* The exercise price of a share option is the amount that the employee is required to pay to obtain each share under the option.



### Share Option Scheme (Continued)

The fair value of the Group's share options granted during the year was calculated by an independent professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK\$16,647,250 using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK\$
Employees in aggregate	48,228,000	16,647,250

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

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

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

### 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 or 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 trust fund 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 31 December 2008, no award has yet been given under the Share Award Plan.



## Report of the Directors



### Audit Committee

The audit committee (“Audit Committee”) of the Company comprising the four independent non-executive directors has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group’s audited financial statements for the year ended 31 December 2008.

### Directors’ Interests in a Competing Business

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

### Material Legal Proceedings

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

### Sufficiency of Public Float

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

### Foreign Exchange Exposure

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

### Employees and Remuneration Policy

During the year, the staff costs amounted to HK\$253,438,000, details of which are set out in note 6 to the financial statements. The remuneration of the Group’s employees is commensurate with their responsibilities and the market levels, with discretionary bonuses and training given on a merit basis.

### Significant Investments

There were no significant investments held by the Group as at 31 December 2008.

### Material Acquisitions and Disposals during the Year

There were no material acquisitions and disposals of the Company and its subsidiaries as at 31 December 2008.

### Post Balance Sheet Event

Details of the significant post balance sheet event of the Group is set out in note 42 to the financial statements.

### Auditors

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

On behalf of the Board

**Guo Deying**  
*Chairman*

Hong Kong, 7 April, 2009

# Independent Auditors' Report



## **To the shareholders of China Wireless Technologies Limited** *(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Wireless Technologies Limited ("the Company") and its subsidiaries (the "Group") set out on pages 43 to 108, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

### **AUDITORS' RESPONSIBILITY**

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

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

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

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

## Independent Auditors' Report (Continued)

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### **To the shareholders of China Wireless Technologies Limited**

*(Incorporated in the Cayman Islands with limited liability)*

### **OPINION**

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

### **Ernst & Young**

*Certified Public Accountants*

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

7 April 2009

# Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
REVENUE	5	1,007,135	1,277,663
Cost of sales		(649,049)	(756,350)
Gross profit		358,086	521,313
Other income and gains	5	59,518	64,499
Selling and distribution costs		(200,851)	(213,548)
Administrative expenses		(256,816)	(192,481)
Other expenses		(978)	(709)
Finance costs	7	(22,670)	(11,585)
Share of profit and loss of an associate		(596)	31
PROFIT/(LOSS) BEFORE TAX	6	(64,307)	167,520
Tax	10	(11,769)	–
PROFIT/(LOSS) FOR THE YEAR		(76,076)	167,520
DIVIDENDS	12		
Difference between the proposed final 2006 dividend and the actual dividend paid		–	169
Interim		–	10,115
		–	10,284
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		(3.75) cents	8.33 cents
Diluted		N/A	7.98 cents

# Consolidated Balance Sheet

31 December 2008



	Notes	2008 HK\$'000	2007 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	285,481	345,680
Investment properties	15	243,669	28,917
Prepaid land lease payments	16	63,437	12,155
Intangible assets	17	96,577	36,665
Interest in an associate	19	8,516	8,583
Other non-current assets	23	24,680	–
<b>Total non-current assets</b>		<b>722,360</b>	432,000
<b>CURRENT ASSETS</b>			
Inventories	20	235,681	288,686
Trade receivables	21	269,893	168,692
Bills receivable	22	11,812	40,080
Prepayments, deposits and other receivables	23	150,988	194,131
Due from directors	24	93	134
Pledged time deposits	25	69,533	29,204
Cash and cash equivalents	25	124,915	91,222
<b>Total current assets</b>		<b>862,915</b>	812,149
<b>CURRENT LIABILITIES</b>			
Trade payables	26	160,194	87,879
Bills payable	27	88,158	36,431
Other payables and accruals	28	183,320	157,355
Interest-bearing bank and other borrowings	29	264,086	187,601
Due to an associate	30	6,951	7,386
Tax payable		15,987	15,064
<b>Total current liabilities</b>		<b>718,696</b>	491,716
<b>NET CURRENT ASSETS</b>		<b>144,219</b>	320,433
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>866,579</b>	752,433

## Consolidated Balance Sheet (Continued)

31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	29	201,281	79,091
Deferred tax liabilities	31	19,380	11,992
Long term rental deposits		4,819	–
<b>Total non-current liabilities</b>		<b>225,480</b>	91,083
<b>Net assets</b>		<b>641,099</b>	661,350
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	32	20,401	20,230
Shares held for the Share Award Plan	34	(2,835)	–
Reserves	35	623,533	641,120
<b>Total equity</b>		<b>641,099</b>	661,350

**Guo Deying**  
Director

**Jiang Chao**  
Director

## Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2008



	Notes	2008 HK\$'000	2007 HK\$'000
At 1 January – total equity		661,350	431,664
Surplus on revaluation of buildings	35	2,812	39,865
Deferred tax on revaluation reserve	35	(323)	(8,334)
Exchange differences on translation of the financial statements of foreign entities	35	40,381	38,500
Total income and expense recognised directly in equity		42,870	70,031
Profit/(loss) for the year	35	(76,076)	167,520
Total income and expense for the year		(33,206)	237,551
Dividends paid		–	(25,241)
Issue of shares, including share premium	32	3,162	10,369
Equity-settled share option arrangements	35	12,628	7,007
Shares held for the Share Award Plan	34	(2,835)	–
Transfer to share premium account from share option reserve	32, 35	1,803	3,012
Transfer from share option reserve to share premium account	35	(1,803)	(3,012)
At 31 December – total equity		641,099	661,350

# Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		<b>(64,307)</b>	167,520
Adjustments for:			
Bank interest income	5	<b>(2,386)</b>	(1,773)
Finance costs	7	<b>22,670</b>	11,585
Share of loss/(profit) of an associate		<b>596</b>	(31)
Depreciation	6	<b>18,074</b>	10,438
Changes in fair value of investment properties	6	<b>(9,990)</b>	–
Amortisation of patents and licences	6	<b>16,465</b>	9,433
Amortisation of product development costs	6	<b>5,951</b>	3,224
Recognition of prepaid land lease payments	6	<b>1,107</b>	298
Loss on disposal of items of property, plant and equipment	6	<b>483</b>	1
Impairment/(reversal of impairment) of trade receivables	6	<b>(5,689)</b>	5,367
Provision for inventories	6	<b>6,410</b>	–
Equity-settled share option expense	6	<b>12,628</b>	7,007
		<b>2,012</b>	213,069
(Increase)/decrease in inventories		<b>70,649</b>	(20,446)
(Increase)/decrease in trade receivables		<b>(75,684)</b>	5,636
(Increase)/decrease in bills receivable		<b>30,596</b>	(37,312)
Decrease in prepayments, deposits and other receivables		<b>58,629</b>	135,162
Decrease in amounts due from directors		<b>51</b>	619
Increase in other non-current assets		<b>(2,034)</b>	–
Increase in trade payables		<b>61,183</b>	20,722
Increase/(decrease) in bills payable		<b>46,137</b>	(52,048)
Increase/(decrease) in other payables and accruals		<b>10,680</b>	(43,415)
Decrease in an amount due to a related company		<b>–</b>	(110)
Decrease in an amount due to a director		<b>–</b>	(170)
Increase in long term rental deposits		<b>4,819</b>	–
Cash generated from operations		<b>207,038</b>	221,707
Tax paid		<b>(4,534)</b>	(950)
Net cash inflow from operating activities		<b>202,504</b>	220,757



## Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Net cash inflow from operating activities		<b>202,504</b>	220,757
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Bank interest received	5	<b>2,386</b>	1,773
Purchases of items of property, plant and equipment		<b>(128,167)</b>	(202,113)
Proceeds from disposal of items of property, plant and equipment		<b>355</b>	–
Additions to product development costs	17	<b>(48,238)</b>	(14,598)
Additions to patents and licences	17	<b>(32,010)</b>	(11,415)
Addition to prepaid land lease payments		<b>(75,327)</b>	–
Investment in an associate		<b>–</b>	(8,552)
(Increase)/decrease in pledged time deposits		<b>(40,329)</b>	15,609
Net cash outflow from investing activities		<b>(321,330)</b>	(219,296)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares	32	<b>3,162</b>	10,369
New bank loans		<b>970,664</b>	364,934
Repayment of bank and other loans		<b>(792,071)</b>	(351,060)
Increase/(decrease) in an amount due to an associate		<b>(435)</b>	7,386
Interest paid		<b>(31,684)</b>	(11,585)
Purchase of shares held for the Share Award Plan	34	<b>(2,835)</b>	–
Dividends paid		<b>–</b>	(25,241)
Net cash inflow/(outflow) from financing activities		<b>146,801</b>	(5,197)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>27,975</b>	(3,736)
Cash and cash equivalents at beginning of year		<b>91,222</b>	83,439
Effect of foreign exchange rate changes, net		<b>5,718</b>	11,519
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>124,915</b>	91,222
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	25	<b>124,915</b>	86,090
Non-pledged time deposits with original maturity of less than three months when acquired	25	<b>–</b>	5,132
		<b>124,915</b>	91,222

# Balance Sheet

31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	433	–
Investments in subsidiaries	18	44,991	44,991
Intangible assets	17	1,945	3,501
<b>Total non-current assets</b>		<b>47,369</b>	48,492
<b>CURRENT ASSETS</b>			
Due from subsidiaries	18	257,511	162,983
Deposits and other receivables	23	439	26
Pledged time deposits	25	25,000	15,001
Cash and cash equivalents	25	3,473	19,244
<b>Total current assets</b>		<b>286,423</b>	197,254
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	28	230	295
Interest-bearing bank borrowings	29	53,863	2,750
<b>Total current liabilities</b>		<b>54,093</b>	3,045
<b>NET CURRENT ASSETS</b>		<b>232,330</b>	194,209
<b>Net assets</b>		<b>279,699</b>	242,701
<b>EQUITY</b>			
Issued capital	32	20,401	20,230
Shares held for the Share Award Plan	34	(2,835)	–
Reserves	35	262,133	222,471
<b>Total equity</b>		<b>279,699</b>	242,701

**Guo Deying**  
Director

**Jiang Chao**  
Director

# Notes to Financial Statements

31 December 2008

## 1. CORPORATE INFORMATION

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

The Group is a wireless solution and equipment provider in Mainland China. During the year, the Group continued to focus on the production and sales of smartphone.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Data Dreamland Holding Limited, 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 (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

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

The adoption of these new interpretations and amendments has had no financial effect on these financial statements.

31 December 2008

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

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> <sup>1</sup>
HKFRS 1 (Revised)	<i>First-time Adoption of HKFRSs</i> <sup>2</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i> <sup>1</sup>
HKFRS 3 (Revised)	<i>Business Combinations</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures</i> <sup>1</sup>
HKFRS 8	<i>Operating Segments</i> <sup>1</sup>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> <sup>1</sup>
HKAS 23 (Revised)	<i>Borrowing Costs</i> <sup>1</sup>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>2</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i> <sup>1</sup>
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> <sup>2</sup>
HKAS 39 and HK(IFRIC)-Int 9 Amendments	Amendments to HK(IFRIC)-Int 9 “Reassessment of Embedded Derivatives” and HKAS 39 “Financial Instruments: Recognition and Measurement”
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> <sup>3</sup>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> <sup>1</sup>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> <sup>4</sup>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> <sup>2</sup>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> <sup>2</sup>

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

<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 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

\* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Subsidiaries

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

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

#### An Associate

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

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

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

#### Related Parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a member of the key management personnel of the Group or its holding company;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, Plant and Equipment and Depreciation

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

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

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Investment Properties**

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

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

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

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

#### **Intangible Assets**

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

##### *Patents and licences*

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

##### *Research and development costs*

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

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

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

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Impairment of Non-financial Assets**

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

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

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

#### **Operating Leases**

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

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





### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial Assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables which include trade and other receivables of the Group.

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

#### Derecognition of Financial Assets

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets have expired or where the Group has transferred its contractual rights to receive cashflows from the financial assets and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### Impairment of Financial Assets

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

Impairment loss on loans and receivables is recognised when there is objective evidence that the Group will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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

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

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Inventories**

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

#### **Cash and Cash Equivalents**

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

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

#### **Financial Liabilities at Amortised Cost (Including Interest-bearing Loans and Borrowings)**

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

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

#### **Derecognition of Financial Liabilities**

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

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

#### **Provisions**

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

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

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

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Income Tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Government Grants and Subsidies

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

#### Revenue Recognition

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

- (a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services associated with goods sold, upon completion of such services;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

#### Employee Benefits

##### *Share-based payment transactions*

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

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

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

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Employee Benefits (continued)

##### *Share-based payment transactions (continued)*

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

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

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

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

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

##### *Pension scheme*

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

##### *Shares held for the Share Award Plan*

As disclosed in note 34 to the financial statements, the Company has appointed a trustee to purchase its own shares on the open market for the purpose of the Share Award Plan (as defined in note 34). The consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for the Share Award Plan" and is deducted from equity. No gain or loss is recognised in the income statement on the purchase of the Company's own shares for the purpose of the Share Award Plan.

#### Borrowing Costs

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



### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Dividends

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

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

#### Foreign Currencies

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

The functional currency of subsidiaries in Mainland China is Renminbi ("RMB"). As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rate ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### Judgements

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

#### *Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *Classification between investment properties and owner-occupied properties*

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

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

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

#### Estimation Uncertainty

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

#### *Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2008, the best estimate of the carrying amount of capitalised product development costs was HK\$63,965,000 (2007: HK\$20,399,000) (note 17).

#### *Provision for product warranties*

The Group provides one-year warranties on its products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### Estimation Uncertainty (continued)

##### *Write-down of inventories to net realisable value*

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimates, such differences will have an impact on the carrying amounts of inventories and the write-down charged/written-back in the period in which such estimate has been changed.

### 4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the mobile phone segment engages in the research, development, production and sale of mobile phones; and
- (b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation.

Segment information was not presented in the Group's prior year financial statements because all of the Group's revenue and contribution to its operating profit were derived from the research, development, production and sale of mobile phones in prior years. During the year, property investment segment was identified as a reportable segment as it satisfied the relevant 10 per cent thresholds in accordance with the requirements of HKAS 14 "Segment Reporting". Accordingly, comparative amounts have been restated to reflect the newly identified property investment segment.



## Notes to Financial Statements

31 December 2008

### 4. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

#### Year ended 31 December 2008

	Mobile phone HK\$'000	Property investment HK\$'000	Total HK\$'000
<b>Segment revenue:</b>			
Sales to external customers	1,007,135	–	1,007,135
Other revenue	33,366	23,766	57,132
<b>Total</b>	<b>1,040,501</b>	<b>23,766</b>	<b>1,064,267</b>
<b>Segment results</b>	<b>(62,534)</b>	<b>20,085</b>	<b>(42,449)</b>
Interest income			2,386
Corporate and other unallocated expenses			(978)
Finance costs			(22,670)
Share of loss of an associate	(596)	–	(596)
Loss before tax			(64,307)
Tax			(11,769)
Loss for the year			(76,076)
<b>Assets and liabilities</b>			
Segment assets	1,128,956	253,355	1,382,311
Interest in an associate	8,516	–	8,516
Corporate and other unallocated assets			194,448
<b>Total assets</b>			<b>1,585,275</b>
Segment liabilities	431,672	4,819	436,491
Due to an associate	6,951	–	6,951
Corporate and other unallocated liabilities			500,734
<b>Total liabilities</b>			<b>944,176</b>
<b>Other segment information:</b>			
Depreciation and amortisation	41,439	158	41,597
Capital expenditure	250,769	41,987	292,756
Impairment losses recognised in the income statement	6,410	–	6,410
Impairment losses reversed in the income statement	5,689	–	5,689
Fair value gains on investment properties	–	9,990	9,990
Product warranty provision	12,948	–	12,948

## Notes to Financial Statements

31 December 2008

### 4. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2007

	Mobile phone HK\$'000	Property investment HK\$'000	Total HK\$'000
<b>Segment revenue:</b>			
Sales to external customers	1,277,663	–	1,277,663
Other revenue	62,726	–	62,726
<b>Total</b>	<b>1,340,389</b>	<b>–</b>	<b>1,340,389</b>
<b>Segment results</b>			
Interest income			1,773
Corporate and other unallocated expenses			(709)
Finance costs			(11,585)
Share of profit of an associate	31	–	31
Profit before tax			167,520
Tax			–
Profit for the year			167,520
<b>Assets and liabilities</b>			
Segment assets	944,100	171,040	1,115,140
Interest in an associate	8,583	–	8,583
Corporate and other unallocated assets			120,426
Total assets			1,244,149
Segment liabilities	278,609	–	278,609
Due to an associate	7,386	–	7,386
Corporate and other unallocated liabilities			296,804
Total liabilities			582,799
<b>Other segment information:</b>			
Depreciation and amortisation	23,393	–	23,393
Capital expenditure	174,120	54,006	228,126
Impairment losses recognised in the income statement	5,367	–	5,367
Product warranty provision	24,961	–	24,961

## Notes to Financial Statements

31 December 2008

### 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and trade discounts, and after eliminations of all intra-group transactions.

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

	2008 HK\$'000	2007 HK\$'000
<b>Revenue</b>		
Sale of mobile phones	1,007,135	1,277,663
<b>Other income</b>		
Bank interest income	2,386	1,773
Government grants and subsidies *	31,430	60,870
Gross rental income	13,776	–
Others	1,936	1,856
	49,528	64,499
<b>Gains</b>		
Fair value gains on investment properties	9,990	–
	59,518	64,499

\* Government grants and subsidies represented refunds of VAT paid from a tax bureau and government grants received from a finance bureau to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies relating to these grants.

## Notes to Financial Statements

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### 6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2008 HK\$'000	2007 HK\$'000
Cost of inventories sold		642,639	756,350
Depreciation	14	18,074	10,438
Amortisation of patents and licences *	17	16,465	9,433
Recognition of prepaid land lease payments	16	1,107	298
Research and development costs:			
Product development costs amortised *	17	5,951	3,224
Current year expenditure		57,780	21,903
		<b>63,731</b>	25,127
Operating lease rental		6,574	4,472
Auditors' remuneration		2,464	2,052
Staff costs (including directors' remuneration (note 8)):			
Salaries and wages		210,718	122,522
Staff welfare expenses		5,311	4,344
Pension scheme contributions		24,781	13,392
Equity-settled share option expense	33	12,628	7,007
		<b>253,438</b>	147,265
Impairment/(reversal of impairment) of trade receivables		(5,689)	5,367
Provision for inventories		6,410	–
Product warranty provision	28	12,948	24,961
Loss on disposal of items of property, plant and equipment		483	1
Foreign exchange differences, net		(5,370)	172
Net rental income		(9,829)	–
Changes in fair value of investment properties		(9,990)	–

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

## Notes to Financial Statements

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### 7. FINANCE COSTS

	Group	
	2008 HK\$'000	2007 HK\$'000
Interest on:		
Bank loans	28,132	16,254
Discounted bills receivable	3,552	2,416
	<b>31,684</b>	18,670
Less: Interest capitalised	(9,014)	(7,085)
	<b>22,670</b>	11,585

### 8. DIRECTORS' REMUNERATION

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

	Group	
	2008 HK\$'000	2007 HK\$'000
Fees	410	337
Other emoluments		
Salaries, allowances and benefits in kind	4,035	2,462
Pension scheme contributions	7	6
	<b>4,042</b>	2,468
	<b>4,452</b>	2,805

#### (a) Independent Non-executive Directors

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

	2008 HK\$'000	2007 HK\$'000
Dr. Huang Dazhan	120	120
Mr. Xie Weixin	56	–
Mr. Chan King Chung	100	100
Mr. Yang Xianzu	134	117
	<b>410</b>	337

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

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## 8. DIRECTORS' REMUNERATION (CONTINUED)

## (b) Executive Directors and Non-executive Directors

	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>2008</b>			
<i>Executive directors:</i>			
Mr. Guo Deying	2,017	–	2,017
Mr. Jiang Chao	1,345	4	1,349
<i>Non-executive directors:</i>			
Ms. Yang Xiao	673	3	676
Ms. Ma Dehui	–	–	–
	<b>4,035</b>	<b>7</b>	<b>4,042</b>
<b>2007</b>			
<i>Executive directors:</i>			
Mr. Guo Deying	1,230	–	1,230
Mr. Jiang Chao	616	5	621
<i>Non-executive directors:</i>			
Ms. Yang Xiao	616	1	617
Ms. Ma Dehui	–	–	–
	<b>2,462</b>	<b>6</b>	<b>2,468</b>

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

## Notes to Financial Statements

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### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2007: two) non-director and highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>628</b>	616
Performance related bonuses	<b>112</b>	–
Equity-settled share option expense	<b>302</b>	204
Pension scheme contributions	<b>7</b>	10
	<b>1,049</b>	830

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

During the year, share options were granted to a non-director and highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and highest paid employees' remuneration disclosures.

### 10. TAX

The Company is a tax exempted company registered in the Cayman Islands and conducts substantially all of its business through its subsidiaries established in Mainland China (the "PRC Subsidiaries").

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 year. 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.

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Group:		
Current – Mainland China	<b>5,539</b>	–
Deferred (note 31)	<b>6,230</b>	–
Total tax charge for the year	<b>11,769</b>	–

## Notes to Financial Statements

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### 10. TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory tax rate for the country in which majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) before tax	<b>(64,307)</b>	167,520
Tax at the statutory tax rate (2008: 25%, 2007: 33%)	<b>(16,076)</b>	55,281
Lower tax rates for specific provinces or enacted by local authorities	<b>(512)</b>	(71,197)
Effect of increase in tax rates on deferred tax	<b>1,536</b>	–
Profit and loss attributable to an associate	<b>100</b>	(5)
Income not subject to tax	<b>(886)</b>	–
Expenses not deductible for tax	<b>4,788</b>	6,407
Tax losses not recognised	<b>22,819</b>	9,514
Tax charge at the Group's effective rate	<b>11,769</b>	–
The Group's effective income tax rate	<b>18.3%</b>	–

In accordance with the Income Tax Law of the People's Republic of China (the "PRC") on Enterprises with Foreign Investment and Foreign Enterprises, the Company's PRC Subsidiaries, being foreign investment enterprises, were subject to a preferential PRC corporate income tax rate (the "CIT") of 15% in prior years.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but not limited to, the unification of the CIT rates for domestic-invested and foreign-invested enterprises at 25%.

In accordance with "Guo Fa [2007] No. 39" promulgated on 26 December 2007:

- (a) from 1 January 2008, for enterprises that enjoy a preferential CIT rate of 15%, the CIT rate will be transitioned to 25% over five years at rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012; and
- (b) from 1 January 2008, enterprises that originally enjoyed the preference of regular tax reduction and exemption, will continue to enjoy the original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference.

Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad"), the Company's wholly-owned subsidiary, has been assessed as a high-technology enterprise and was exempted from CIT for the two years ended 31 December 2006 and 2007 and is entitled to a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2010. In this connection, Shenzhen Coolpad was subject to CIT at a rate of 7.5% for the current year. Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), the Company's wholly-owned subsidiary, has also been assessed as a high-technology enterprise and was subject to CIT at a rate of 15% for the current year. The other PRC Subsidiaries were subject to CIT at a rate of 18% for the current year.



## Notes to Financial Statements

31 December 2008

### 10. TAX (CONTINUED)

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and jurisdiction of the foreign investors. On 22 February 2008, "Caishui [2008] No. 1" was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from withholding tax. As at 31 December 2008, there was no material unrecognised deferred tax liability for withholding tax that would be payable on the unremitted earnings of the Group's PRC Subsidiaries.

### 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of HK\$24,043,000 (2007: HK\$32,208,000) which has been dealt with in the financial statements of the Company (note 35).

### 12. DIVIDENDS

	2008 HK\$'000	2007 HK\$'000
Difference between the proposed final 2006 dividend and the actual dividend paid *	–	169
Interim – nil (2007: HK\$0.005) per ordinary share	–	10,115
	–	10,284

\* Certain share options were exercised during the period between the date when dividend was proposed and the date when payment was made. Accordingly, the number of shares that were eligible for dividend payment increased which resulted in the difference.

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

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

The calculation of diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

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

	2008 HK\$'000	2007 HK\$'000
<b>Earnings/(loss)</b>		
Profit/(loss) attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	<b>(76,076)</b>	167,520
	<b>Number of shares</b>	
	2008	2007
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	<b>2,031,008,877</b>	2,011,069,545
Effect of dilution – weighted average number of ordinary shares – Share options	–	89,345,331
	<b>2,031,008,877</b>	2,100,414,876

A diluted loss per share amount for the year ended 31 December 2008 has not been disclosed as no diluting events existed during that year.

## Notes to Financial Statements

31 December 2008

### 14. PROPERTY, PLANT AND EQUIPMENT

#### Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>31 December 2008</b>						
Cost or valuation:						
At 1 January 2008	169,136	2,808	51,974	5,426	136,778	366,122
Additions	–	907	11,548	518	124,208	137,181
Disposals	–	–	(1,858)	(4)	–	(1,862)
Transfer to investment properties (note 15)	(25,413)	–	–	–	(177,536)	(202,949)
Transfers	–	–	8,835	–	(8,835)	–
Exchange realignment	10,603	176	3,258	340	8,574	22,951
At 31 December 2008	154,326	3,891	73,757	6,280	83,189	321,443
Accumulated depreciation:						
At 1 January 2008	717	535	15,872	3,318	–	20,442
Depreciation provided during the year	7,004	760	9,755	555	–	18,074
Write-back of revaluation (note 35)	(2,812)	–	–	–	–	(2,812)
Disposals	–	–	(1,021)	(3)	–	(1,024)
Exchange realignment	45	33	996	208	–	1,282
At 31 December 2008	4,954	1,328	25,602	4,078	–	35,962
Net book value:						
At 31 December 2008	149,372	2,563	48,155	2,202	83,189	285,481
At 31 December 2007	168,419	2,273	36,102	2,108	136,778	345,680
Analysis of cost or valuation:						
At cost	1,674	3,891	73,757	6,280	83,189	168,791
At valuation	152,652	–	–	–	–	152,652
	154,326	3,891	73,757	6,280	83,189	321,443

## Notes to Financial Statements

31 December 2008

### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2007						
Cost or valuation:						
At 1 January 2007	37,329	2,219	26,824	3,986	77,081	147,439
Additions	–	425	25,255	1,149	175,284	202,113
Disposals	–	–	(2,309)	(4)	–	(2,313)
Transfer to investment properties (note 15)	(21,078)	–	–	–	–	(21,078)
Transfers	121,054	–	224	–	(121,278)	–
Surplus on revaluation (note 35)	31,095	–	–	–	–	31,095
Write-back of revaluation	(2,020)	–	–	–	–	(2,020)
Exchange realignment	2,756	164	1,980	295	5,691	10,886
<b>At 31 December 2007</b>	<b>169,136</b>	<b>2,808</b>	<b>51,974</b>	<b>5,426</b>	<b>136,778</b>	<b>366,122</b>
Accumulated depreciation:						
At 1 January 2007	601	37	9,014	2,853	–	12,505
Transfer to investment properties (note 15)	(931)	–	–	–	–	(931)
Depreciation provided during the year	3,022	495	6,664	257	–	10,438
Write-back of revaluation (note 35)	(2,020)	–	–	–	–	(2,020)
Disposals	–	–	(471)	(3)	–	(474)
Exchange realignment	45	3	665	211	–	924
<b>At 31 December 2007</b>	<b>717</b>	<b>535</b>	<b>15,872</b>	<b>3,318</b>	<b>–</b>	<b>20,442</b>
Net book value:						
<b>At 31 December 2007</b>	<b>168,419</b>	<b>2,273</b>	<b>36,102</b>	<b>2,108</b>	<b>136,778</b>	<b>345,680</b>
<b>At 31 December 2006</b>	<b>36,728</b>	<b>2,182</b>	<b>17,810</b>	<b>1,133</b>	<b>77,081</b>	<b>134,934</b>
Analysis of cost or valuation:						
At cost	1,576	2,808	51,974	5,426	136,778	198,562
At valuation	167,560	–	–	–	–	167,560
	<b>169,136</b>	<b>2,808</b>	<b>51,974</b>	<b>5,426</b>	<b>136,778</b>	<b>366,122</b>

## Notes to Financial Statements

31 December 2008

### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Group (continued)

Except for the dormitory of the Group which has been carried at historical cost less accumulated depreciation, all of the Group's remaining buildings were revalued individually at the balance sheet date by Debenham Tie Leung Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$148,537,000 based on their existing use. A revaluation surplus of HK\$2,812,000, resulting from the above valuations, has been credited to the relevant asset revaluation reserve (note 35).

Had these buildings been carried at historical cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$122,371,000.

At 31 December 2008, certain of the Group's buildings with a net book value of approximately HK\$78,348,000 (2007: nil) were pledged to secure general banking facilities granted to the Group (note 29).

#### Company

	Motor vehicles HK\$'000
<b>31 December 2008</b>	
Cost:	
Additions and at 31 December 2008	518
Accumulated depreciation:	
Depreciation provided during the year and at 31 December 2008	85
Net book value:	
At 31 December 2008	433

### 15. INVESTMENT PROPERTIES

	Group	
	2008 HK\$'000	2007 HK\$'000
Carrying amount at 1 January	28,917	–
Transfer from owner-occupied property (note 14)	202,949	20,147
Net profit from a fair value adjustment	9,990	8,770
Exchange realignment	1,813	–
Carrying amount at 31 December	243,669	28,917

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

The Group's investment properties were revalued on 31 December 2008 by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK\$243,669,000 on an open market, existing use basis.

At 31 December 2008, certain of the Group's investment properties with a value of approximately HK\$146,942,000 (2007: nil) were pledged to secure general banking facilities granted to the Group (note 29).

## Notes to Financial Statements

31 December 2008

### 16. PREPAID LAND LEASE PAYMENTS

	Group	
	2008 HK\$'000	2007 HK\$'000
Carrying amount at 1 January	12,453	11,875
Addition	52,681	–
Recognised during the year	(1,107)	(298)
Exchange realignment	781	876
	<b>64,808</b>	12,453
Carrying amount at 31 December		
Current portion included in prepayments, deposits and other receivables	<b>(1,371)</b>	(298)
Non-current portion	<b>63,437</b>	12,155

The leasehold land is situated in Mainland China and is held under the following lease terms:

	HK\$'000
Long term leases	51,890
Medium term leases	12,918
	<b>64,808</b>

At 31 December 2008, the Group's prepaid land lease payments with an aggregate carrying amount of HK\$63,437,000 (2007: HK\$12,155,000) were pledged to secure general banking facilities granted to the Group (note 29).

## Notes to Financial Statements

31 December 2008

### 17. INTANGIBLE ASSETS

#### Group

	Product development costs HK\$'000	Patents and licences HK\$'000	Total HK\$'000
<b>31 December 2008</b>			
Cost:			
At 1 January 2008	32,067	37,020	69,087
Additions	48,238	32,010	80,248
Exchange realignment	2,010	1,834	3,844
At 31 December 2008	82,315	70,864	153,179
Accumulated amortisation:			
At 1 January 2008	11,668	20,754	32,422
Provided during the year	5,951	16,465	22,416
Exchange realignment	731	1,033	1,764
At 31 December 2008	18,350	38,252	56,602
Net book value:			
At 31 December 2008	63,965	32,612	96,577
<b>31 December 2007</b>			
Cost:			
At 1 January 2007	16,268	24,380	40,648
Additions	14,598	11,415	26,013
Exchange realignment	1,201	1,225	2,426
At 31 December 2007	32,067	37,020	69,087
Accumulated amortisation:			
At 1 January 2007	7,863	10,730	18,593
Provided during the year	3,224	9,433	12,657
Exchange realignment	581	591	1,172
At 31 December 2007	11,668	20,754	32,422
Net book value:			
At 31 December 2007	20,399	16,266	36,665

## Notes to Financial Statements

31 December 2008

### 17. INTANGIBLE ASSETS (CONTINUED)

#### Company

	Patents and licences HK\$'000
<b>31 December 2008</b>	
Cost:	
At 1 January 2008 and 31 December 2008	7,780
Accumulated amortisation:	
At 1 January 2008	4,279
Provided during the year	1,556
At 31 December 2008	5,835
Net book value:	
At 31 December 2008	1,945
<b>31 December 2007</b>	
Cost:	
At 1 January 2007 and 31 December 2007	7,780
Accumulated amortisation:	
At 1 January 2007	2,723
Provided during the year	1,556
At 31 December 2007	4,279
Net book value:	
At 31 December 2007	3,501



## Notes to Financial Statements

31 December 2008

### 18. INTERESTS IN SUBSIDIARIES

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

The amounts due from subsidiaries included in the Company's current assets of HK\$257,511,000 (2007: HK\$162,983,000) are unsecured, interest-free and repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Company	Place of registration and operation	Nominal value of issued and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yulong Infotech Inc.	BVI/ Mainland China	US\$50,000	100	–	Investment holding
Digital Tech Inc.	BVI/ Mainland China	US\$10	100	–	Investment holding
Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd.*	PRC/ Mainland China	RMB240,600,000	–	100	Manufacture and sale of mobile phones
Coolpad Software Tech (Shenzhen) Co., Ltd. *	PRC/ Mainland China	HK\$10,000,000	–	100	Provision of product design and software development for mobile handsets
Dongguan Yulong Computer Telecommunications Scientific Co., Ltd. **	PRC/ Mainland China	RMB120,000,000	–	100	Provision of product design and software development for mobile handsets
Xi'an Coolpad Software Tech Co., Ltd. **	PRC/ Mainland China	RMB8,000,000	–	100	Provision of product design and software development for mobile handsets

\* Shenzhen Yulong and Shenzhen Coolpad were registered as wholly-foreign-owned enterprises under the PRC law.

\*\* Dongguan Yulong Computer Telecommunications Scientific Co., Ltd. and Xi'an Coolpad Software Tech Co., Ltd. were registered as co-operative joint ventures under the PRC law.

## Notes to Financial Statements

31 December 2008

### 19. INTEREST IN AN ASSOCIATE

	<b>Group</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Share of net assets	<b>8,516</b>	8,583

Particulars of the associate are as follows:

Name	Place of registration and operation	Fully paid-up capital	Percentage of ownership interest attributable to the Group	Principal activities
Shenzhen Tendbloom Information Technology Co., Ltd.*	PRC/Mainland China	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.

\* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network

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

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Assets	<b>34,157</b>	35,357
Liabilities	<b>91</b>	(1,026)
Revenue	<b>2,438</b>	1,539
Profit/(loss)	<b>(2,386)</b>	124

On 3 February 2009, a resolution was passed by the associate's board of directors to wind up the associate (note 42).

## Notes to Financial Statements

31 December 2008

### 20. INVENTORIES

	Group	
	2008	2007
	HK\$'000	HK\$'000
Raw materials	126,485	135,989
Work in progress	62,796	60,594
Finished goods	46,400	92,103
	<b>235,681</b>	<b>288,686</b>

At 31 December 2008, the carrying amount of the Group's inventories was pledged as security for the Group's bank loans (note 29).

### 21. TRADE RECEIVABLES

	Group	
	2008	2007
	HK\$'000	HK\$'000
Trade receivables	275,911	179,779
Impairment	(6,018)	(11,087)
	<b>269,893</b>	<b>168,692</b>

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

## Notes to Financial Statements

31 December 2008

### 21. TRADE RECEIVABLES (CONTINUED)

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

	Group	
	2008 HK\$'000	2007 HK\$'000
Within 3 months	245,879	167,740
4 to 6 months	24,011	811
7 to 12 months	3	141
1 to 2 years	–	2,006
More than 2 years	6,018	9,081
	<b>275,911</b>	179,779
Less: Impairment	<b>(6,018)</b>	(11,087)
	<b>269,893</b>	168,692

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

	Group	
	2008 HK\$'000	2007 HK\$'000
At 1 January	11,087	5,720
Impairment losses recognised (note 6)	–	5,367
Impairment losses reversed (note 6)	(5,689)	–
Exchange realignment	620	–
	<b>6,018</b>	11,087

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$6,018,000 (2007: HK\$11,087,000) with a carrying amount of HK\$6,018,000 (2007: HK\$11,087,000). The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2008 HK\$'000	2007 HK\$'000
Neither past due nor impaired	245,879	167,740
More than 3 months past due	24,014	952
	<b>269,893</b>	168,692

## Notes to Financial Statements

31 December 2008

### 21. TRADE RECEIVABLES (CONTINUED)

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

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

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

At 31 December 2008, the carrying amount of the Group's trade receivables was pledged as security for the Group's bank loans (note 29).

### 22. BILLS RECEIVABLE

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

	Group	
	2008 HK\$'000	2007 HK\$'000
Within 3 months	11,812	40,080

Bills receivable, being bank acceptance drafts, are non-interest bearing and their carrying amounts approximate to their fair values.

At 31 December 2007 and 2008, the Group had neither past due nor impaired bills receivable.

## Notes to Financial Statements

31 December 2008

### 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Advances to suppliers	95,004	144,009	–	–
Prepayment for purchase of leasehold land	22,646	–	–	–
Prepaid expenses	2,034	–	–	–
Deposits and other receivables	50,238	46,982	439	26
Subsidy receivables	5,746	3,140	–	–
	<b>175,668</b>	194,131	<b>439</b>	26
Less: Non-current portion	(24,680)	–	–	–
Current portion	<b>150,988</b>	194,131	<b>439</b>	26

The carrying amounts of financial assets included in the above balances approximate to their fair values.

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

### 24. DUE FROM DIRECTORS

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

#### Group

Name	31 December 2008 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2008 HK\$'000
Mr. Guo Deying	93	263	47
Mr. Jiang Chao	–	78	55
Ms. Yang Xiao	–	215	32
<b>Total</b>	<b>93</b>		<b>134</b>

The amounts due from directors mainly represented advances granted to directors for business trips. The amounts due are unsecured, interest-free and have no fixed terms of repayment.

Subsequent to the balance sheet date, the amounts due from directors were fully repaid.

## Notes to Financial Statements

31 December 2008

### 25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Note	Group		Company	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Cash and bank balances		124,915	86,090	3,473	14,111
Time deposits		69,533	34,336	25,000	20,134
		194,448	120,426	28,473	34,245
Less: Pledged time deposits:					
– Pledged for bills payable	27	(26,987)	(9,661)	–	–
– Pledged for issuance of letters of credit		(42,546)	(19,543)	(25,000)	(15,001)
		(69,533)	(29,204)	(25,000)	(15,001)
Cash and cash equivalents		124,915	91,222	3,473	19,244

At the balance sheet date, the cash and cash equivalents of the Group denominated in RMB amounted to HK\$121,169,000 (2007: HK\$60,831,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

### 26. TRADE PAYABLES

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

	Group	
	2008 HK\$'000	2007 HK\$'000
Within 3 months	143,721	73,406
4 to 6 months	12,533	4,156
7 to 12 months	2,730	929
More than 1 year	1,210	9,388
	160,194	87,879

The trade payables are non-interest-bearing and are normally settled on 30 – 60 day terms. The carrying amounts of trade payables approximate to their fair values.

## Notes to Financial Statements

31 December 2008

### 27. BILLS PAYABLE

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

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within 3 months	–	36,431
4 to 6 months	<b>88,158</b>	–
	<b>88,158</b>	36,431

The carrying amounts of bills payable approximate to their fair values.

As at 31 December 2008, the Group's bills payable were secured by time deposits of HK\$26,987,000 (2007: HK\$9,661,000) as set out in note 25 to the financial statements.

### 28. OTHER PAYABLES AND ACCRUALS

		<b>Group</b>		<b>Company</b>	
	<i>Note</i>	<b>2008</b>	2007	<b>2008</b>	2007
		<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Accruals		<b>9,514</b>	20,185	–	295
Advances from customers		<b>75,076</b>	65,622	–	–
Other payables		<b>92,803</b>	64,484	<b>230</b>	–
Product warranty provision	<i>(a)</i>	<b>5,927</b>	7,064	–	–
		<b>183,320</b>	157,355	<b>230</b>	295

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



## Notes to Financial Statements

31 December 2008

### 28. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Note:

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

	Group	
	2008 HK\$'000	2007 HK\$'000
At 1 January	7,064	–
Additional provision	12,948	24,961
Amounts utilised during the year	(13,689)	(18,938)
Exchange realignment	(396)	1,041
At 31 December	5,927	7,064

The Group provides one-year warranties on its products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

## Notes to Financial Statements

31 December 2008

### 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2008			2007		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Bank loans – secured	5.04-7.47	2009	177,185	6.56-6.9	2008	30,539
Bank loans – unsecured	5.04	2009	22,716	6.03-7.29	2008	112,224
Import and trust receipt loans	3.75-8.05	2009	64,185	7.39-7.47	2008	40,563
Other borrowing			–	–	2008	4,275
			<b>264,086</b>			187,601
<b>Non-current</b>						
Bank loans – secured	5.76-6.48	2010-2012	199,901	6.48	2009-2011	79,091
Bank loans – unsecured	5.87	2010-2018	1,380			–
			<b>201,281</b>			79,091
			<b>465,367</b>			266,692
Analysed into:						
Within one year or on demand			264,086			187,601
In the second year			72,938			29,926
In the third to fifth years, inclusive			127,633			49,165
Beyond five years			710			–
			<b>465,367</b>			266,692
<b>Company</b>						
<b>Current</b>						
Import and trust receipt loans	3.75-6.75	2009	53,863	6.56	2008	2,750

## Notes to Financial Statements

31 December 2008

### 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

- (a) Certain of the Group's bank loans are secured by:
- (i) the pledge of certain of the Group's buildings and investment properties situated in Mainland China, which had an aggregate carrying value at the balance sheet date of approximately HK\$225,290,000 (2007: Nil);
  - (ii) the pledge of the Group's leasehold lands which had an aggregate carrying value at the balance sheet date of approximately HK\$63,437,000 (2007: HK\$12,155,000);
  - (iii) charges over the Group's rental income on certain investment properties (2007: nil);
  - (iv) floating charges over the Group's inventories totalling HK\$235,681,000 (2007: nil); and
  - (v) floating charges over the Group's trade receivables totalling HK\$269,893,000 (2007: nil).

In addition, bank loans of the Group were also supported by guarantees provided by the following parties:

	2008 HK\$'000	2007 HK\$'000
Personal guarantees from related parties:		
– Mr. Guo Deying	303,359	21,376
– Ms. Yang Xiao	224,888	–
– Mr. Jiang Chao and his spouse	190,814	21,376
Corporate guarantees from independent third-parties:		
– Dongguan Songshan Lake Industrial Development Co., Ltd.	1,380	–
– Shenzhen Small and Medium Business Guarantee Centre	22,716	21,376

- (b) At the balance sheet date, the Group's bank borrowings of HK\$201,181,000 bear interest at floating rates.
- (c) At the balance sheet date, the Group's bank borrowings of HK\$64,186,000 and HK\$401,181,000 were in US dollars and RMB, respectively.
- (d) The directors estimate that the fair values of the Group's borrowings by discounting their future cash flows at the prevailing interest rates approximate to their carrying amounts.
- (e) At 31 December 2007, other borrowing represented an interest-free loan obtained from Shenzhen Futian District Science and Technology Bureau for a research project of the Group. The borrowing was guaranteed by Shenzhen High Technology Investment Guarantee Co., Limited.

## Notes to Financial Statements

31 December 2008

### 30. DUE TO AN ASSOCIATE

The amount due to an associate is non-trade in nature, unsecured, interest-free and repayable on demand. On 3 February 2009, a resolution was passed by the associate's board of directors to wind up the associate (note 42).

### 31. DEFERRED TAX LIABILITIES

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

<b>Group</b>	Revaluation of buildings HK\$'000
At 1 January 2007	3,407
Deferred tax debited to equity during the year (note 35)	8,334
Exchange differences	251
	<hr/>
At 31 December 2007 and 1 January 2008	<b>11,992</b>
Deferred tax debited to equity during the year (note 35)	<b>323</b>
Deferred tax charged to income statement during the year (note 10)	<b>6,230</b>
Exchange differences	<b>835</b>
	<hr/>
At 31 December 2008	<b>19,380</b>

The Group had tax losses arising in Mainland China of HK\$142,300,000 in the current year which will expire in 2013 for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

## Notes to Financial Statements

31 December 2008

### 32. SHARE CAPITAL

	2008 HK\$'000	2007 HK\$'000
Authorised:		
4,000,000,000 (2007: 4,000,000,000) ordinary shares of HK\$0.01 each	40,000	40,000
Issued and fully paid:		
2,040,116,000 (2007: 2,022,976,000) ordinary shares of HK\$0.01 each	20,401	20,230

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

- The subscription rights attaching to 16,000,000 share options were exercised at the subscription price of HK\$0.175 per share (note 33), resulting in the issue of 16,000,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$2,800,000.
- The subscription rights attaching to 672,000 share options were exercised at the subscription price of HK\$0.2175 per share (note 33), resulting in the issue of 672,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$146,000.
- The subscription rights attaching to 468,000 share options were exercised at the subscription price of HK\$0.4615 per share (note 33), resulting in the issue of 468,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$216,000.

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

	Notes	Number of shares in issue	Issued capital HK\$'000	Share premium account HK\$'000 (note 35)	Total HK\$'000
At 1 January 2007		498,560,000	4,986	196,621	201,607
Share options exercised		8,748,000	87	10,282	10,369
Transfer from share option reserve		–	–	3,012	3,012
Bonus shares issued		1,515,668,000	15,157	(15,157)	–
At 31 December 2007 and 1 January 2008		<b>2,022,976,000</b>	<b>20,230</b>	<b>194,758</b>	<b>214,988</b>
Share options exercised	(a) to (c)	<b>17,140,000</b>	<b>171</b>	<b>2,991</b>	<b>3,162</b>
Transfer from share option reserve		–	–	<b>1,803</b>	<b>1,803</b>
At 31 December 2008		<b>2,040,116,000</b>	<b>20,401</b>	<b>199,552</b>	<b>219,953</b>

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

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### 33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's non-executive directors, including independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Scheme became effective on 21 November 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group is an amount equivalent, upon their exercise, to 10% of the shares in issue at the time dealings in the shares first commence on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

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

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

## Notes to Financial Statements

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### 33. SHARE OPTION SCHEME (CONTINUED)

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

	2008		2007	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.569	155,384	1.193	36,192
Exercised before the issue of first bonus shares	–	–	1.405	(5,632)
Issue of first bonus shares	–	–	–	30,560
Exercised before the issue of second bonus shares	–	–	0.790	(3,092)
Granted during the year	0.680	48,228	1.415	19,676
Issue of second bonus shares	–	–	–	77,704
Exercised after the issue of second bonus shares	0.1845	(17,140)	0.4615	(24)
Forfeited during the year	0.95	(19,972)	–	–
Expired during the year	0.175	(48,000)	–	–
At 31 December	0.765	118,500	0.569	155,384

The weighted average share price at the date of exercise for share options exercised during the year was HK\$0.725 (2007: HK\$3.51).

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

#### 2008

Number of options '000	Exercise price HK\$* per share	Exercise period
8,848	0.2175	28-06-05 to 27-06-09
35,612	0.4615	27-07-06 to 26-07-10
3,744	0.4615	27-07-07 to 26-07-11
19,960	1.415	18-09-08 to 17-09-12
11,456	1.415	18-09-10 to 17-09-14
14,856	0.674	20-05-09 to 19-05-13
7,120	0.674	20-05-10 to 19-05-14
13,320	0.674	20-05-11 to 19-05-15
3,584	0.674	20-05-14 to 19-05-18
<b>118,500</b>		

## Notes to Financial Statements

31 December 2008

### 33. SHARE OPTION SCHEME (CONTINUED)

#### 2007

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

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

The fair value of the share options granted during the year was approximately HK\$16,647,000 (2007: HK\$26,938,000) of which the Group recognised a share option expense of HK\$3,452,000 (2007: HK\$3,199,000) during the year ended 31 December 2008.

The fair value of the equity-settled share options granted during the year was calculated by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer, at HK\$16,647,000 using a binomial model as at the date of grant of the options, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008	2007
Dividend yield (HK\$)	0~0.01	0.005~0.015
Expected volatility (%)	67.98~70.84	65.85
Historical volatility (%)	67.98~70.84	65.85
Risk-free interest rate (%)	1.985~2.803	3.898~4.123
Expected life of options (year)	3 to 9.5	3~6.5
Weighted average share price (HK\$)	0.680	1.415

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

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

The 17,140,000 share options exercised during the year resulted in the issue of 17,140,000 ordinary shares of the Company and new share capital of HK\$171,000 and share premium of HK\$2,991,000 (before issue expenses), as further detailed in note 32 to the financial statements.



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### 33. SHARE OPTION SCHEME (CONTINUED)

At the balance sheet date, the Company had 118,500,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 118,500,000 additional ordinary shares of the Company and additional share capital of HK\$1,185,000 and share premium of HK\$89,560,000 (before issue expenses).

Subsequent to the balance sheet date, on 27 February 2009, a total of 31,572,000 share options were granted to certain employees of the Company in respect of their services to the Group in the forthcoming year. These share options vest on 27 February 2010 or 27 February 2013 and have an exercise price of HK\$0.397 per share and an exercise period ranging from 27 February 2010 to 27 February 2017. The price of the Company's shares at the date of grant was HK\$0.365 per share. Additionally, a total of 436,000 share options were exercised subsequent to the balance sheet date. The exercise of these share options have resulted in the issue of 436,000 ordinary shares for a total cash consideration, before expenses, of HK\$95,000.

At the date of approval of these financial statements, the Company had 149,636,000 share options outstanding under the Scheme, which represented approximately 7.33% of the Company's shares in issue as at that date.

### 34. SHARE AWARD PLAN

On 3 March 2008, the directors approved the adoption of a share award plan (the "Share Award Plan") to recognise and reward the contribution of certain employees to the growth and development of the Group through an award of the Company's shares. The Share Award Plan became effective on 3 March 2008 and will remain in force for 10 years from that date.

The Group has appointed a trustee (the "Trustee") for the purposes of administering the Share Award Plan. The Trustee will be notified by the directors in writing upon making of an award to an eligible employee under the Share Award Plan. Upon the receipt of such notice, the Trustee will set aside the appropriate number of awarded shares out of a pool of shares comprising the following:

- (a) the Company's shares which will be purchased by the Trustee on the Stock Exchange at such times and prices as may be considered by the Trustee to be appropriate by utilising the fund to be paid by the Company to the Trustee;
- (b) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the directors out of the Company's resources; and
- (c) such shares which remain unvested and revert to the Trustee by reason of a lapse of an award.

The legal and beneficial ownership of the relevant awarded shares shall vest in the relevant selected employee 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 selected employee as specified in the related notice of award have been attained and notified to the Trustee by the directors in writing; and (c) where applicable, the date on which the Trustee has completed the purchase of shares for the purpose of making the relevant award.

During the year, the Trustee has purchased a total number of 16,224,000 ordinary shares of the Company at a total cash consideration of approximately HK\$2,835,000, including transaction costs. At 31 December 2008, none of these purchased shares was awarded.

## Notes to Financial Statements

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### 34. SHARE AWARD PLAN (CONTINUED)

Subsequent to the balance sheet date, the Trustee has purchased a total number of 2,800,000 ordinary shares of the Company at a total cash consideration of approximately HK\$974,000, including transaction costs.

At the date of approval of these financial statements, none of the purchased shares was awarded.

### 35. RESERVES

#### Group

	Notes	Share premium account HK\$'000 (Note (a))	Shares held for the Share Award Plan HK\$'000	Contributed surplus HK\$'000 (Notes (a) and (b))	Revaluation reserve HK\$'000	Statutory reserve HK\$'000 (Note (c))	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2007		196,621	-	390	18,418	6,489	6,618	18,428	164,757	411,721
Issue of shares	32	10,282	-	-	-	-	-	-	-	10,282
Bonus shares issued	32	(15,157)	-	-	-	-	-	-	-	(15,157)
Transfer from share option reserve	32	3,012	-	-	-	(3,012)	-	-	-	-
Surplus on revaluation of buildings	14	-	-	-	39,865	-	-	-	-	39,865
Deferred tax on revaluation reserve	31	-	-	-	(8,334)	-	-	-	-	(8,334)
Equity-settled share option arrangements	33	-	-	-	-	-	7,007	-	-	7,007
Profit for the year		-	-	-	-	-	-	-	167,520	167,520
Exchange realignment		-	-	-	-	-	-	38,500	-	38,500
Transfer from retained profits		-	-	-	-	35,333	-	-	(35,333)	-
Interim 2007 dividend	12	-	-	-	-	-	-	-	(10,115)	(10,115)
Difference between the proposed final 2006 dividend and the actual dividend paid	12	-	-	-	-	-	-	-	(169)	(169)

At 31 December 2007 and 1 January 2008		194,758	-	390	49,949	41,822	10,613	56,928	286,660	641,120
Issue of shares	32	2,991	-	-	-	-	-	-	-	2,991
Transfer from share option reserve	32	1,803	-	-	-	-	(1,803)	-	-	-
Surplus on revaluation of buildings	14	-	-	-	2,812	-	-	-	-	2,812
Deferred tax on revaluation reserve	31	-	-	-	(323)	-	-	-	-	(323)
Equity-settled share option arrangements	33	-	-	-	-	-	12,628	-	-	12,628
Shares purchased for the Share Award Plan	34	-	(2,835)	-	-	-	-	-	-	(2,835)
Loss for the year		-	-	-	-	-	-	-	(76,076)	(76,076)
Exchange realignment		-	-	-	-	-	-	40,381	-	40,381
At 31 December 2008		199,552*	(2,835)	390*	52,438*	41,822*	21,438*	97,309*	210,584*	620,698

\* These reserve accounts comprise the consolidated reserves of HK\$623,533,000 (2007: HK\$641,120,000) in the consolidated balance sheet.

## Notes to Financial Statements

31 December 2008

### 35. RESERVES (CONTINUED)

#### Company

	Notes	Share premium account HK\$'000 (Note (a))	Shares held for the Share Award Plan HK\$'000	Contributed surplus HK\$'000 (Notes (a) and (b))	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2007		196,621	-	44,992	6,618	388	(50,204)	198,415
Issue of shares	32	10,282	-	-	-	-	-	10,282
Bonus shares issued	32	(15,157)	-	-	-	-	-	(15,157)
Transfer from share option reserve	32	3,012	-	-	(3,012)	-	-	-
Equity-settled share option arrangements	33	-	-	-	7,007	-	-	7,007
Profit for the year	11	-	-	-	-	-	32,208	32,208
Interim 2007 dividend	12	-	-	-	-	-	(10,115)	(10,115)
Difference between the proposed final 2006 dividend and the actual dividend paid	12	-	-	-	-	-	(169)	(169)
<b>At 31 December 2007 and 1 January 2008</b>		<b>194,758</b>	<b>-</b>	<b>44,992</b>	<b>10,613</b>	<b>388</b>	<b>(28,280)</b>	<b>222,471</b>
Issue of shares	32	2,991	-	-	-	-	-	2,991
Transfer from share option reserve	32	1,803	-	-	(1,803)	-	-	-
Equity-settled share option arrangements	33	-	-	-	12,628	-	-	12,628
Shares purchased for the Share Award Plan	34	-	(2,835)	-	-	-	-	(2,835)
Profit for the year	11	-	-	-	-	-	24,043	24,043
<b>At 31 December 2008</b>		<b>199,552*</b>	<b>(2,835)</b>	<b>44,992*</b>	<b>21,438*</b>	<b>388*</b>	<b>(4,237)*</b>	<b>259,298</b>

\* These reserve accounts comprise the reserves of HK\$262,133,000 (2007: HK\$222,471,000) in the Company's balance sheet.

## Notes to Financial Statements

31 December 2008

### 35. RESERVES (CONTINUED)

Notes:

- (a) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.
- (b) The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group's reorganisation on 31 July 2003 over the nominal value of the Company's shares issued in exchange therefor. The contributed surplus of the Company represents the excess of the then aggregate net asset values of the subsidiaries acquired pursuant to the Group's reorganisation over the nominal value of the Company's shares issued in exchange therefor.
- (c) In accordance with the PRC regulations, each of the PRC Subsidiaries is required to allocate 10% of its profit after tax, as determined under the PRC accounting regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. Part of the statutory reserve may be used either to offset losses, or to be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

### 36. CONTINGENT LIABILITIES

At the balance sheet date, the Group had no significant contingent liabilities.

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

	<b>Company</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<b>457,727</b>	190,407

At 31 December 2008, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$112,545,000 (2007: HK\$69,472,000).

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**37. OPERATING LEASE ARRANGEMENTS****(a) As Lessor**

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>19,051</b>	1,333
In the second to fifth years, inclusive	<b>110,139</b>	1,226
	<b>129,190</b>	2,559

**(b) As Lessee**

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

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>6,472</b>	5,387
In the second to fifth years, inclusive	<b>9,332</b>	10,459
	<b>15,804</b>	15,846

## Notes to Financial Statements

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### 38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the balance sheet date:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Contracted, but not provided for:		
Patents and licences	4,318	79,263
Land and buildings	22,571	85,292
	<b>26,889</b>	164,555

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

### 39. RELATED PARTY TRANSACTIONS

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

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	5,476	4,126
Pension scheme contributions	26	37
Equity-settled share option expense	806	1,269
<b>Total compensation paid to key management personnel</b>	<b>6,308</b>	5,432

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

(b) Details of the Group's balances with its related parties as at the balance sheet date are disclosed in notes 24 and 30 to the financial statements, respectively.

(c) Guarantee provided by related parties

At the balance sheet date, certain of the Group's bank loans were guaranteed by certain of the Company's directors and their spouses, details of which are included in note 29 to the financial statements.

## Notes to Financial Statements

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### 40. FINANCIAL INSTRUMENTS BY CATEGORY

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

	<b>Group</b>	
	<b>2008</b>	2007
<b>Financial assets</b>		
	<b>Loans and receivables HK\$'000</b>	Loans and receivables HK\$'000
Trade receivables	<b>269,893</b>	168,692
Bills receivable	<b>11,812</b>	40,080
Financial assets included in prepayments, deposits and other receivables	<b>55,984</b>	46,982
Pledged time deposits	<b>69,533</b>	29,204
Cash and cash equivalents	<b>124,915</b>	91,222
	<b>532,137</b>	376,180
<b>Financial liabilities</b>		
	<b>Financial liabilities at amortised cost HK\$'000</b>	Financial liabilities at amortised cost HK\$'000
Trade payables	<b>160,194</b>	87,879
Bills payable	<b>88,158</b>	36,431
Financial liabilities included in other payables and accruals	<b>92,803</b>	59,369
Interest-bearing bank and other borrowings	<b>465,367</b>	266,692
Due to an associate	<b>6,951</b>	7,386
	<b>813,473</b>	457,757

## Notes to Financial Statements

31 December 2008

### 40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Company	
	2008	2007
<b>Financial assets</b>		
	<b>Loans and receivables HK\$'000</b>	Loans and receivables HK\$'000
Due from subsidiaries	257,511	162,983
Deposits and other receivables	439	–
Pledged time deposits	25,000	15,001
Cash and cash equivalents	3,473	19,244
	<b>286,423</b>	197,228
<b>Financial liabilities</b>		
	<b>Financial liabilities at amortised cost HK\$'000</b>	Financial liabilities at amortised cost HK\$'000
Other payables	230	–
Interest-bearing bank and other borrowings	53,863	2,750
	<b>54,093</b>	2,750

### 41. 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 and bills receivables and trade and bills payables, which arise directly from its operations.

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

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



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**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****Interest Rate Risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligation with a floating interest rate. The interest rates and terms of repayment of the Group's loans are disclosed in note 29.

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

	<b>Group</b>	
	<b>Increase/ (decrease) in basis points</b>	<b>Increase/ (decrease) in profit before tax HK\$'000</b>
<b>2008</b>		
Hong Kong dollar	100	(2,546)
Hong Kong dollar	(100)	2,546
<b>2007</b>		
Hong Kong dollar	100	(1,026)
Hong Kong dollar	(100)	1,026

As at the balance sheet date, the Company had no significant interest bearing assets and liabilities except for cash and cash equivalents and short term bank borrowings. Accordingly, the Company's income and operating cash flows are not substantially affected by changes in market interest rates.

**Foreign Currency Risk**

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

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

**Credit Risk**

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

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

31 December 2008

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****Credit Risk (continued)**

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the balance sheet date, the Group has certain concentrations of credit risk as 85% (2007: 91%) and 96% (2007: 95%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk from trade and other receivables are disclosed in notes 21 and 23 to the financial statements, respectively.

**Liquidity Risk**

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

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

**Group**

	2008					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Interest-bearing bank and other borrowings	–	118,916	158,320	218,792	842	496,870
Trade payables	16,473	143,721	–	–	–	160,194
Bills payable	–	38,183	49,975	–	–	88,158
Financial liabilities included in other payables and accruals	37,823	54,801	179	–	–	92,803
Due to an associate	6,951	–	–	–	–	6,951
	<b>61,247</b>	<b>355,621</b>	<b>208,474</b>	<b>218,792</b>	<b>842</b>	<b>844,976</b>

## Notes to Financial Statements

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### 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Liquidity Risk (continued)

##### Group

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

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

##### Company

	On demand HK\$'000	2008 Less than 3 months HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	–	53,975	53,975
Other payables	230	–	230
	<u>230</u>	<u>53,975</u>	<u>54,205</u>

	2007 Less than 3 months HK\$'000
Interest-bearing bank borrowings	<u>2,750</u>

#### Capital Management

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

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**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****Capital Management (continued)**

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

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

**GROUP**

	2008 HK\$'000	2007 HK\$'000
Interest-bearing bank and other borrowings	465,367	266,692
Trades payables	160,194	87,879
Bills payable	88,158	36,431
Other payables and accruals	183,320	157,355
Due to an associate	6,951	7,386
Less: Cash and cash equivalents	(124,915)	(91,222)
Net debt	779,075	464,521
Equity attributable to equity holders of the Company	641,099	661,350
Capital and net debt	1,420,174	1,125,871
Gearing ratio	55%	41%

## Notes to Financial Statements

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### 42. POST BALANCE SHEET EVENT

On 3 February 2009, a resolution was passed by the board of directors of the Group's associate to approve the winding-up of the associate. In the opinion of the directors, the winding-up of the Group's associate is unlikely to have a significant impact on the Group's results of operations and financial position.

### 43. COMPARATIVE AMOUNTS

As further explained in note 4 to the financial statements, due to the identification of a new reportable segment during the current year, certain comparative amounts have been restated to conform with the current year's presentation.

### 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 April 2009.