中国无线
CHINA WIRELESS

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)

Coolpad 酷派
live smart

ANNUAL REPORT 2009

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. ("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 chief executive officer) 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 for enterprises, governmental departments and telecommunications operators as well as the personal consumers 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, CDMA1X(EVDO) and WCDMA networks, the Company and its subsidiaries (collectively, the "Group") have developed a number of various proprietary technologies and patents in operating systems, radio frequency, protocols and wireless data decomposed transmission technology. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of high-end dual-mode smartphone in the Mainland China's telecommunications market. The Group is currently focusing on the research and development ("R&D") of smartphone as one kind of integrated wireless data solutions for its consumers in Mainland China.

In spite of being 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 with the overseas telecommunications operators. The Group has established strong and close strategic cooperation relationships with certain global telecommunications operators and is striving to further develop its business in the global telecommunications markets.

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

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CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
Hutchins Drive
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Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Coolpad Information Harbor
NO.2 Mengxi Road
Hi-Tech Industrial Park (North)
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

AUDITORS AND REPORTING ACCOUNTANTS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

WEBSITE ADDRESS

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

STOCK CODE

2369

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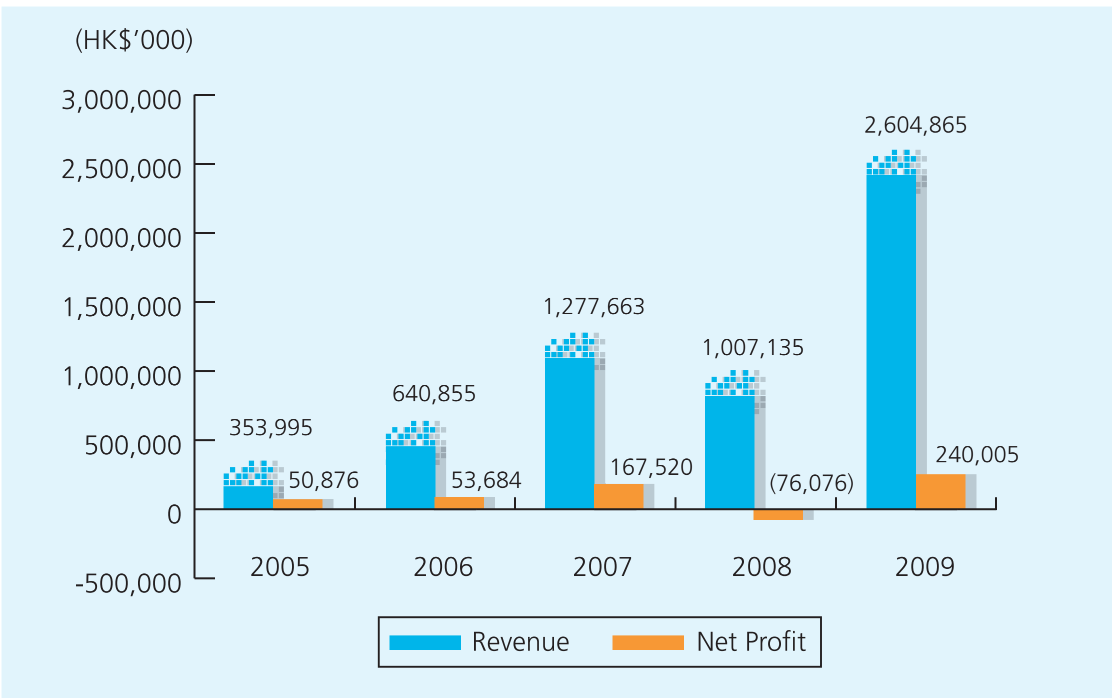
FINANCIAL HIGHLIGHTS

The financial data below are extracted from the Group's audited financial statements audited by Ernst & Young and prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

CONDENSED CONSOLIDATED INCOME STATEMENTS					
	Year ended 31 December (HK$'000)				
	2009	2008	2007	2006	2005
Operating revenue	**2,604,865**	1,007,135	1,277,663	640,855	353,995
Profit before tax	**263,579**	(64,307)	167,520	53,684	60,318
Tax	**(23,574)**	(11,769)	–	–	(9,442)
Profit/(loss) for the year	**240,005**	(76,076)	167,520	53,684	50,876

CONDENSED CONSOLIDATED BALANCE SHEETS					
	As at 31 December (HK$'000)				
	2009	2008	2007	2006	2005
Non-current assets	**831,430**	722,360	432,000	168,586	64,468
Current assets	**1,418,416**	862,915	812,149	854,087	527,554
Non-current liabilities	**245,096**	225,480	91,083	102,939	2,035
Current liabilities	**1,125,624**	718,696	491,716	488,070	276,291
Net assets	**879,126**	641,099	661,350	431,664	313,696



The Group's Revenue and Net Profit in the Last Five Years

CHAIRMAN'S STATEMENT

Guo Deying
Chairman, Executive Director and CEO

Review of the Performance of the Group for the Year Ended 31 December 2009

Dear fellow shareholders:

On behalf of the board ("Board") of directors ("Directors") of the Company, I am honored to present the annual results of the Group for the year ended 31 December 2009.

CHAIRMAN'S STATEMENT

OPERATING RESULTS

The Group's consolidated revenue for the year ended 31 December 2009 grew to HK$2,604.9 million from HK$1,007.1 million for the year ended 31 December 2008, representing a substantial increase of 158.7%. The substantial growth of the consolidated revenue in 2009 was mainly attributable to: 1) the strong sales of CDMA Coolpad smartphone benefited from the industry blooming of the CDMA mobile phone market after the restructuring of the Mainland China's telecommunications industry (the "Restructuring"); and 2) the surging sales of 3G smartphone, including CDMA1X(EVDO) and TD-SCDMA smartphones in Mainland China during the year under review.

The Group recorded a net profit of HK$240.0 million for the year ended 31 December 2009, while it was a net loss of HK$76.1 million for the year ended 31 December 2008.

Basic and diluted earnings per share attributable to ordinary equity holders of the Company for the year ended 31 December 2009 were HK11.74 cents and HK11.59 cents, respectively.

DIVIDENDS

In view of the Group's positive operating results and its strong financial position, the Board of Directors recommended a final dividend of HK3 cents (2008: Nil) per ordinary share. This dividend, together with the interim dividend of HK1 cent per ordinary share already paid, will make a total distribution of HK4 cents for the full year. Subject to the shareholders' approval at the forthcoming annual general meeting to be held on Thursday, 27 May 2010, the final dividend will be paid on or about Tuesday, 8 June 2010 to equity holders whose names appear on the register of members at the close of business on Thursday, 27 May 2010. For this purpose, the register of members of the Company will be closed from 24 May 2010 to 27 May 2010 inclusive, during which no transfer of shares will be effected.

In order to qualify for the final dividends, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. no later than 20 May 2010.

As the final dividend is declared after the balance sheet date, such dividend is not recognised as a liability as at 31 December 2009.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW OF THE GROUP IN 2009

In respect of the year 2009, we are feeling proud of the accomplishment achieved by the Group through the dedicated staff's hard-work to seize the opportunity presented by the domestic telecommunications industry development after the Restructuring. The Group achieved a record financial result with strong revenue and earnings growth, shipped an unprecedented number of Coolpad smartphones, and maintained expanding market share momentum in Mainland China. Nowadays, the Group has been one of the reputable smartphone providers in the domestic CDMA and TD-SCDMA mobile phone market.

The Group further strengthened its market position and significantly narrowed the gap with its main competitors in the share of CDMA mobile phone market. The Group shipped above 2,000,000 units of Coolpad smartphone (2008: 500,000 units), including approximately 1,500,000 units of CDMA (and CDMA1X(EVDO)) Coolpad smartphone with 13 models and approximately 500,000 units of TD-SCDMA Coolpad smartphone with 4 models launched in 2009. Notably, the Group achieved a big breakthrough in the domestic mid and low-end CDMA mobile phone market by launching a series of mid and low-end Coolpad smartphone (such as Coolpad S100 and Coolpad S60) in 2009.

The Group made inroads into the 3G mobile phone market and quickly captured a leading position as the 3G technologies were beginning to mass commercialize during the year under review. The Group initially launched four TD-SCDMA/GSM dual-mode Coolpad smartphone and six CDMA1X(EVDO)/GSM dual-mode Coolpad smartphone for their network operators respectively, with the shipment of 3G smartphone approximately 900,000 units in all (including approximately 400,000 units of CDMA1X(EVDO) Coolpad smartphones and approximately 500,000 units of TD-SCDMA/GSM Coolpad smartphones). Additionally, the Group's brand "Coolpad" has been the famous local brand selling 3G smartphone in Mainland China and gained an initial momentum in the market since its long-term commitment to the R&D of 3G smartphone.

The Group initially launched an innovative and powerful software application store (namely, "Coolmart") with a fashionable user-interface in July 2009. The mobile application store has strongly enhanced its consumer's experience and loyalty. The Group's "Coolmart" software application store has offered a pioneering example in China's mobile phone market, and aroused enormously positive response among its consumers and the domestic telecommunications industry during the year under review.

The Group initiated a variety of brand campaign to promote Coolpad smartphone in "LIVE SMART" version during the year under review. The Group has significantly improved the Coolpad brand recognition, as well as projected a positive and healthy corporate image in Mainland China's 3G mobile phone market through these initiatives related to LIVE SMART. Besides, the Group has further broadened its marketing and distribution channels by taking lots of effective measures to develop social distribution agents, apart from the close cooperation with the domestic telecommunications operators during the year under review. The Group has established long and strategic cooperation with over 100 new distributions partnerships at home and abroad over the year. Above all, the new brand version and strong distribution channels expanded the reach of Coolpad brand and further boosted its competitive and market positioning.

The Group has established three R&D centers and one production base in Shenzhen, Xi'an, Beijing and Dongguan, respectively. The new factory in Dongguan was already put into operation at the beginning of 2010 after more than two years construction. The new production base would enlarge the Group's production capacities and scale, as well as paved a solid road for its future growth.

PROSPECTS OF THE GROUP FOR 2010

It is expected that the domestic 3G mobile phone market will embrace a rapid growth in 2010. As a leading 3G smartphone developer, the Group now is well positioned to take advantage of the existing opportunities ahead.

The Group will continue to implement the strategies of product differentiation, R&D enhancement, multi-channel marketing and distributions strengthening, and product and service quality as well as administrative efficiency improvements.

The Group will further consolidate its leading position in the 3G mobile phone market through introducing more innovative and competitive products in 2010. The Group plans to develop more than ten TD-SCDMA(HSDPA)/GSM dual-mode Coolpad smartphones, more than ten CDMA1X(EVDO)/GSM dual-mode Coolpad smartphones, and four WCDMA/GSM dual-mode Coolpad smartphones, respectively. The Group will continue to launch more mid and low-end Coolpad smartphones so as to further expand its market share in 2010. Besides, the Group will endeavor to diversify its product portfolio through developing a series of wireless data cards and netbook for the surging 3G access device market. Therefore, it's believed that the Group's business scope and depth will be further broadened and strengthened in 2010.

Innovation is the Group's core competitiveness. The Group will further enhance its R&D capabilities and wireless data solutions service through the focus on the continuous innovation of technologies and products, especially in the field of 3G smartphone and 3G related applications. The Group will continue to expand the number and variety of applications and contents available in "Coolmart" software application store by developing and optimizing the standard software and hardware development platform. The Group will continue to focus the technology innovation on user-interface (UI) and interaction as well as industrial design (ID), so as to enhance the mobile experience and build consumer loyalty.

The Group will endeavor to expand its customer base by growing and strengthening the relationships with the domestic telecommunications operators and distribution partners. The Group will continue to enhance the depth of cooperation with the operators in fields of R&D, marketing and distribution of tailor-made 3G smartphone, and so on. As a long-term development strategy, the Group will continue to expand the oversea markets by close cooperation with foreign telecommunications operators in respect of Coolpad brand. Moreover, the Group will continue to enhance to cooperate with a wide range of well-known partners in regard of the R&D of high-end chipsets and operating systems, such as Qualcomm, Freescale, Leadcore Technologies, TI, Micosoft, etc..

Quality and consumer service of products has never been so most important as the Group's consumer base is enlarging with its brand recognition growing recently. The Group will continue to ultimately exercise strict control and management over product quality, and perfect after-sales service. The Group plans to build more image shops and after-sales service centers in Mainland China in order to improve its product presence and expand its after-sales service network.

CHAIRMAN'S STATEMENT

Human resource is the best asset of the Group. The Group will continue to attract, hire and retain the best available talents to support Coolpad's customers and partners and to maintain a leading position in the market.

The Group will continue to put emphasis on its business process restructuring and ongoing optimization of information management system so as to effectively improve the management's administrative efficiency, and to strictly control its production costs.

Additionally, we know there are lots of challenges with the opportunities in the year ahead. The Group will face a more serious competition in the domestic mid and low-end mobile phone market since its product mix switched to the mid and low-end market, and will bear a continuing pressure in terms of the Group's average selling price and gross profit margin in 2010. Nonetheless, we are confident on the Group's future development in 2010, provided that we firmly grasp the opportunity presented by the rapid development of the domestic 3G smartphone market on the back of the Group's implementation of product differentiation and leading market position strategies in 2010.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to record my appreciation of the hard work and perseverance of the management and over 3,000 staff of the Group which enabled the Group to maintain its market leading position and a rapid growth in the past year. I would also like to communicate sincere appreciation to our customers, business partners and shareholders for their support throughout the year of 2009.

Guo Deying
Chairman

Hong Kong, 16 April 2010

創新未來，成就今天

INNOVATION IN THE FUTURE TODAY'S SUCCESS

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.

TOTAL REVENUE HK$2,604.9 MILLION

	Year ended 31 December	
	HK$ million	
	2009	2008
Revenue		
CDMA/GSM Dual-mode Smartphone	**1,011.4**	624.7
GSM/GSM Dual-mode Smartphone	**22.4**	146.1
TD-SCDMA/GSM Dual-mode Smartphone	**719.0**	56.5
CDMA Single-mode Smartphone	**835.9**	155.8
Other Products	**16.2**	24.0
Total revenue	**2,604.9**	1,007.1
Cost of sales	**(1,890.2)**	(681.4)
Gross profit	**714.7**	325.7
Other income/gains	**77.4**	59.5
Other expenses	**(4.2)**	(1.0)
Selling & distribution costs	**(244.4)**	(200.9)
Administrative expenses	**(265.7)**	(224.4)
Financial expenses, net	**(14.2)**	(22.7)
Share of profit from an associate	**–**	(0.5)
Profit/(Loss) before taxation	**263.6**	(64.3)
Income tax expense	**(23.6)**	(11.8)
Profit/(Loss) after taxation	**240.0**	(76.1)

REVENUE ANALYSIS BY PRODUCT TYPES

The breakdown of the consolidated revenue by product types is set forth in the following table for the periods indicated:

Product Types	Year ended 31 December			
	2009		2008	
	Revenue *HK$ million*	**Percentage of total revenue**	Revenue *HK$ million*	Percentage of total revenue
Smartphone				
CDMA/GSM Dual-mode Smartphone[1]	**1,011.4**	**38.8%**	624.7	62.0%
GSM/GSM Dual-mode Smartphone	**22.4**	**0.9%**	146.1	14.5%
TD-SCDMA/GSM Dual-mode Smartphone	**719.0**	**27.6%**	56.5	5.6%
CDMA Single-mode Smartphone[2]	**835.9**	**32.1%**	155.8	15.5%
Subtotal	**2,588.7**	**99.4%**	983.1	97.6%
Other Products	**16.2**	**0.6%**	24.0	2.4%
Total	**2,604.9**	**100.0%**	1,007.1	100.0%

Notes:

1. Including the revenue of CDMA1X(EVDO)/GSM dual-mode smartphone of HK$492.4 million in 2009, accounting for 18.9% of the Group's total revenue;

2. Including the revenue of CDMA1X(EVDO) single-mode smartphone of HK$315.1 million in 2009, accounting for 12.1% of the Group's total revenue.

The Group's consolidated revenue for the year ended 31 December 2009 reached HK$2,604.9 million, representing a substantial increase of 158.7% as compared with HK$1,007.1 million for the year ended 31 December 2008. The substantial growth of the consolidated revenue indicated that the Group benefited directly from the rapid growth of domestic CDMA mobile phone market and the surging demand of 3G smartphone including TD-SCDMA and CDMA1X(EVDO) mobile phones during the year under review.

The Group's revenue from CDMA/GSM dual-mode smartphone reached HK$1,011.4 million for the year ended 31 December 2009, representing an increase of 61.9% as compared with HK$624.7 million for the year ended 31 December 2008. The significant increase was mainly attributable to the Group's business on CDMA/GSM dual-mode smartphone that has been back on track for rapid growth since the completion of the Restructuring in 2008.

The Group's revenue from GSM/GSM dual-mode smartphone decreased considerably from HK$146.1 million in 2008 to HK$22.4 million in 2009, representing a drop of 84.7%. The decrease was because the Group shifted to develop more TD-SCDMA/GSM dual-mode Coolpad smartphones in 2009 and had not introduced any new GSM/GSM dual-mode Coolpad smartphone in 2009.

The Group's revenue from TD-SCDMA/GSM dual-mode smartphone increased from HK$56.5 million in 2008 to HK$719.0 million in 2009, representing a tremendous increase of 1,172.6%. The surge was principally related to the mass introduction of tailor-made TD-SCDMA/GSM dual-mode Coolpad smartphones to its operator during the year under review. The Group successfully launched two TD-SCDMA/GSM high-end dual-mode Coolpad smartphones, one TD-SCDMA/CMMB enabled-TV high-end Coolpad smartphone and one fashionable entry-level TD-SCDMA/GSM dual-mode Coolpad smartphone respectively, with shipment of approximately 500,000 units for the current year (2008: 15,000 units). Additionally, the Group has become one of the major vendors for TD-SCDMA terminals in Mainland China.

The Group's revenue from CDMA single-mode smartphone grew to HK$835.9 million for the year ended 31 December 2009 from HK$155.8 million for the year ended 31 December 2008, representing a significant year-on-year increase of 436.5%. The increase was primarily because the Group expanded its product mix into the mid and low-end CDMA mobile phone market during the year under review. The Group successfully launched four cutting-edge feature-rich smartphone with a lower price to the domestic CDMA network operator in 2009. Moreover, the strategy of launching mid and low-end CMDA single Coolpad smartphone has significantly expanded the Group's market share.

The Group's revenue from other products was HK$16.2 million for the year ended 31 December 2009, representing a decrease of 32.5% as compared with HK$24.0 million for the year ended 31 December 2008. The decrease was mainly attributable to the price-cutting of the accessories of smartphone and related products.

Above all, the revenue contribution from CDMA single-mode smartphone, TD-SCDMA/GSM dual-mode smartphone and CDMA/GSM dual-mode smartphone were 32.1%, 27.6% and 38.8% for the year ended 31 December 2009, respectively, GSM/GSM dual-mode smartphone and other products contributing the remainder. The Group's revenue resource has actively strengthened due to its product mix expansion to include the mid and low-end CDMA single-mode smartphone and TD-SCDMA/GSM dual-mode smartphone during the year under review.

Contribution from the dual-mode smartphone accounted for 67.3% of the total revenue of the Group in 2009 or down 14.8% as compared with 82.1% in 2008, and the revenue from CDMA network products accounted for 70.9% or down 6.6% as compared with 77.5% in 2008. The result positively reflected that the Group not only maintained the competitive advantages on leading the dual-mode smartphone and the domestic CDMA smartphone market, also further improved its product structure and revenue resource during the year under review.

GROSS PROFIT/(LOSS)

	Year ended 31 December			
	2009		2008[1]	
Product Types	**Gross Profit/(Loss)** ***HK$ million***	Gross Profit Margin	Gross Profit/(Loss) *HK$ million*	Gross Profit Margin
Smartphone				
CDMA/GSM Dual-mode Smartphone[2]	**341.3**	33.7%	181.7	29.1%
GSM/GSM Dual-mode Smartphone	**(24.3)**	N/A	31.5	21.6%
TD-SCDMA/GSM Dual-mode Smartphone	**169.5**	23.6%	24.5	43.4%
CDMA Single-mode Smartphone[3]	**243.8**	29.2%	77.7	49.9%
Other Products	**(15.6)**	N/A	10.3	42.9%
Total	**714.7**	27.4%	325.7	32.3%

Notes:

1. Royalty expense of HK$32,405,000 which was previously classified as administrative expense was reclassified as cost of sales in order to conform to the presentation for the year ended 31 December 2009. As such, the Group's gross profit and gross profit margin by product types for the year ended 31 December 2008 have been recomputed.

2. Including the gross profit from CDMA1X(EVDO)/GSM dual-mode smartphone of HK$235.1 million in 2009.

3. Including the gross profit from CDMA1X(EVDO) single-mode smartphone of HK$91.5 million in 2009.

The Group's overall gross profit for the year ended 31 December 2009 grew to HK$714.7 million, representing an increase of 119.4% as compared with HK$325.7 million in 2008. The Group's overall gross profit margin dropped to 27.4%, down 4.9% as compared with 32.3% in 2008. The decrease of the Group's overall gross profit margin was primarily attributable to the significant decline of the Group's average selling price, which was the result of (1) the Group's strategy to expand the domestic mid and low-end smartphone market in 2009; and (2) the intensified competition in the CDMA mobile phone market as more and more CDMA mobile phone manufacturers entered into this market after the Restructuring.

The Group's gross profit from CDMA/GSM dual-mode smartphone for the year ended 31 December 2009 amounted to HK$341.3 million, representing an increase of 87.8% as compared with HK$181.7 million in 2008. The Group's gross profit margin of this product type increased from 29.1% in 2008 to 33.7% in 2009. The increase was mainly due to the introduction of more high-end models to the CDMA network operator during the year under review.

The Group's gross profit from GSM/GSM dual-mode smartphone amounted to a net loss of HK$24.3 million for the year ended 31 December 2009, while it recorded a gross profit of HK$31.5 million in 2008. The result of a net loss in 2009 was primarily resulting from the Group not launching new GSM/GSM dual-mode Coolpad smartphone as well as the write down of certain inventories of GSM/GSM dual-mode Coolpad smartphone during the year under review.

The Group's gross profit from TD-SCDMA/GSM dual-mode smartphone reached HK$169.5 million for the year ended 31 December 2009, representing an increase of 591.8% as compared with HK$24.5 million in 2008. The gross profit margin with respect to this product type decreased from 43.4% in 2008 to 23.6% in 2009. The significant decrease during the year under review was mainly attributable to: (1) the Group's introduction of the entry-level TD-SCDMA Coolpad smartphone with a lower selling price for its network operator during the year under review; and (2) the higher R&D and production costs as its production volume has not yet to reach a reasonable scale in 2009.

The Group's gross profit from CDMA single-mode smartphone for the year ended 31 December 2009 amounted to HK$243.8 million, approximately tripled that of HK$77.7 million in 2008. The gross profit margin of this product type decreased by 20.7% from 49.9% in 2008 to 29.2% in 2009 due mainly to lower selling price.

The Group's gross profit from other products recorded a net loss of HK$15.6 million in 2009, while it was a net profit of HK$10.3 million in 2008. The reason for the net loss during the year under review was that the Group recorded a loss on the disposal of certain scrap materials and certain inventories were provided for impairment in 2009.

OTHER REVENUE AND GAINS

Other revenue and gains of the Group amounted to HK$77.4 million in 2009, representing an increase of 30.1% as compared with HK$59.5 million in 2008. The increase was mainly attributable to the increase of the value-added tax rebate income, government's subsidies and gross rental income.

SELLING AND DISTRIBUTION COSTS

	Year ended 31 December	
	2009	2008
Selling and distribution costs (HK$ million)	**244.4**	200.9
Selling and distribution costs/Sales	**9.4%**	19.9%

Selling and distribution costs of the Group for the year ended 31 December 2009 amounted to HK$244.4 million, representing an increase of 21.7% as compared with HK$200.9 million in 2008. As a percentage of total sales, it accounted for 9.4% in 2009, down 10.5% as compared with 19.9% in 2008. Despite of the increase in the current year gross balance of selling and distribution costs, the decrease in the percentage of selling and distribution costs to total sales was mainly attributable to the economy of scale achieved by the Group in 2009.

ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2009	2008
Administrative expenses (HK$ million)	**265.7**	224.4
Administrative expenses/Sales	**10.2%**	22.3%

Administrative expenses increased by 18.4% from HK$224.4 million in 2008 to HK$265.7 million in 2009. As a percentage of total sales, it accounted for 10.2% in 2009, down 12.1% as compared with 22.3% in 2008. The decrease was because the Group implemented strict control measures on its administrative expenses and the economy of sale achieved by the Group in 2009.

INCOME TAX EXPENSE

For the year ended 31 December 2009, the Group's income tax expense amounted to HK$23.6 million (2008: HK$11.8 million). The increase in the income tax expense during the year under review was mainly attributable to the increase of the Group's profit before tax.

NET PROFIT/(LOSS)

For the year ended 31 December 2009, the Group recorded a net profit of HK$240.0 million (2008: a net loss of HK$76.1 million). The reasons for the improvement were that, during the year under review: (1) the Group recorded a substantial revenue growth; and (2) the Group recorded a drop in the percentage of selling and distribution costs and administrative expenses to sales as the Group benefited from the economy of scale with the growth in sales in 2009.

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2009, 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 2009 amounted to HK$251.4 million (2008: HK$124.9 million).

GEARING RATIO AND THE BASIS OF CALCULATION

The Group's gearing ratio for 2009 was 55%, equivalent to that of 2008. The gearing ratio represented net debt divided by capital plus net debt.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2009, 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 end of the reporting period of HK$171,651,000 (2008: HK$225,290,000);

(ii) the pledge of the Group's leasehold land which had an aggregate carrying value at the end of the reporting period of HK$62,062,000 (2008: HK$63,437,000); and

(iii) charges over the Group's rental income on certain investment properties (2008: Nil).

BUSINESS REVIEW OF THE GROUP IN 2009

In respect of the year 2009, we are feeling proud of the accomplishment achieved by the Group through the dedicated staff's hard-work to seize the opportunity presented by the domestic telecommunications industry development after the Restructuring. The Group achieved a record financial result with strong revenue and earnings growth, shipped an unprecedented number of Coolpad smartphones, and maintained expanding market share momentum in Mainland China. Nowadays, the Group has been one of the reputable smartphone providers in the domestic CDMA and TD-SCDMA mobile phone market.

The Group further strengthened its market position and significantly narrowed the gap with its main competitors in the share of CDMA mobile phone market. The Group shipped above 2,000,000 units of Coolpad smartphone (2008: 500,000 units), including approximately 1,500,000 units of CDMA (and CDMA1X(EVDO)) Coolpad smartphone with 13 models and approximately 500,000 units of TD-SCDMA Coolpad smartphone with 4 models launched in 2009. Notably, the Group achieved a big breakthrough in the domestic mid and low-end CDMA mobile phone market by launching a series of mid and low-end Coolpad smartphone (such as Coolpad S100 and Coolpad S60) in 2009.

The Group made inroads into the 3G mobile phone market and quickly captured a leading position as the 3G technologies were beginning to mass commercialize during the year under review. The Group initially launched four TD-SCDMA/GSM dual-mode Coolpad smartphone and six CDMA1X(EVDO)/GSM dual-mode Coolpad smartphone for their network operators respectively, with the shipment of 3G smartphone approximately 900,000 units in all (including approximately 400,000 units of CDMA1X(EVDO) Coolpad smartphones and approximately 500,000 units of TD-SCDMA/GSM Coolpad smartphones). Additionally, the Group's brand "Coolpad" has been the famous local brand selling 3G smartphone in Mainland China and gained an initial momentum in the market since its long-term commitment to the R&D of 3G smartphone.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group initially launched an innovative and powerful software application store (namely, "Coolmart") with a fashionable user-interface in July 2009. The mobile application store has strongly enhanced its consumer's experience and loyalty. The Group's "Coolmart" software application store has offered a pioneering example in China's mobile phone market, and aroused enormously positive response among its consumers and the domestic telecommunications industry during the year under review.

The Group initiated a variety of brand campaign to promote Coolpad smartphone in "LIVE SMART" version during the year under review. The Group has significantly improved the Coolpad brand recognition, as well as projected a positive and healthy corporate image in Mainland China's 3G mobile phone market through these initiatives related to LIVE SMART. Besides, the Group has further broadened its marketing and distribution channels by taking lots of effective measures to develop social distribution agents, apart from the close cooperation with the domestic telecommunications operators during the year under review. The Group has established long and strategic cooperation with over 100 new distributions partnerships at home and abroad over the year. Above all, the new brand version and strong distribution channels expanded the reach of Coolpad brand and further boosted its competitive and market positioning.

The Group has established three R&D centers and one production base in Shenzhen, Xi'an, Beijing and Dongguan, respectively. The new factory in Dongguan was already put into operation at the beginning of 2010 after more than two years construction. The new production base would enlarge the Group's production capacities and scale, as well as paved a solid road for its future growth.

PROSPECTS OF THE GROUP FOR 2010

It is expected that the domestic 3G mobile phone market will embrace a rapid growth in 2010. As a leading 3G smartphone developer, the Group now is well positioned to take advantage of the existing opportunities ahead.

The Group will continue to implement the strategies of product differentiation, R&D enhancement, multi-channel marketing and distributions strengthening, and product and service quality as well as administrative efficiency improvements.

The Group will further consolidate its leading position in the 3G mobile phone market through introducing more innovative and competitive products in 2010. The Group plans to develop more than ten TD-SCDMA(HSDPA)/GSM dual-mode Coolpad smartphones, more than ten CDMA1X(EVDO)/GSM dual-mode Coolpad smartphones, and four WCDMA/GSM dual-mode Coolpad smartphones, respectively. The Group will continue to launch more mid and low-end Coolpad smartphones so as to further expand its market share in 2010. Besides, the Group will endeavor to diversify its product portfolio through developing a series of wireless data cards and netbook for the surging 3G access device market. Therefore, it's believed that the Group's business scope and depth will be further broadened and strengthened in 2010.

Innovation is the Group's core competitiveness. The Group will further enhance its R&D capabilities and wireless data solutions service through the focus on the continuous innovation of technologies and products, especially in the field of 3G smartphone and 3G related applications. The Group will continue to expand the number and variety of applications and contents available in "Coolmart" software application store by developing and optimizing the standard software and hardware development platform. The Group will continue to focus the technology innovation on user-interface (UI) and interaction as well as industrial design (ID), so as to enhance the mobile experience and build consumer loyalty.

The Group will endeavor to expand its customer base by growing and strengthening the relationships with the domestic telecommunications operators and distribution partners. The Group will continue to enhance the depth of cooperation with the operators in fields of R&D, marketing and distribution of tailor-made 3G smartphone, and so on. As a long-term development strategy, the Group will continue to expand the oversea markets by close cooperation with foreign telecommunications operators in respect of Coolpad brand. Moreover, the Group will continue to enhance to cooperate with a wide range of well-known partners in regard of the R&D of high-end chipsets and operating systems, such as Qualcomm, Freescale, Leadcore Technologies, TI, Micosoft, etc..

Quality and consumer service of products has never been so most important as the Group's consumer base is enlarging with its brand recognition growing recently. The Group will continue to ultimately exercise strict control and management over product quality, and perfect after-sales service. The Group plans to build more image shops and after-sales service centers in Mainland China in order to improve its product presence and expand its after-sales service network.

Human resource is the best asset of the Group. The Group will continue to attract, hire and retain the best available talents to support Coolpad's customers and partners and to maintain a leading position in the market.

The Group will continue to put emphasis on its business process restructuring and ongoing optimization of information management system so as to effectively improve the management's administrative efficiency, and to strictly control its production costs.

Additionally, we know there are lots of challenges with the opportunities in the year ahead. The Group will face a more serious competition in the domestic mid and low-end mobile phone market since its product mix switched to the mid and low-end market, and will bear a continuing pressure in terms of the Group's average selling price and gross profit margin in 2010. Nonetheless, we are confident on the Group's future development in 2010, provided that we firmly grasp the opportunity presented by the rapid development of the domestic 3G smartphone market on the back of the Group's implementation of product differentiation and leading market position strategies in 2010.

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2009, 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 year ended 31 December 2009, the Group's staff costs amounted to HK$246.0 million (2008: 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 2009, 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 enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure.

The Board believes that good corporate governance is beneficial for maintaining close and 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited(the "Stock Exchange") throughout the year ended 31 December 2009, 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, and provide leadership and ensure availability of resources in the attainment of such objectives. The Board endeavors to manage the Company in a responsible and effective manner, and 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 of the Company (the "Management") have clearly defined responsibilities under various internal control and checks-and-balance mechanisms. The Board has delegated certain responsibilities to the Management, including implementation of decisions of the Board and organization and direction of the day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board; preparation and monitoring of annual business plans and operating budget; and control, supervision and monitoring of capital, technical and human resources. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

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

EXECUTIVE DIRECTORS

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

The biography of the Directors are set out in the "Directors and Senior Management" on pages 26 to 28 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 (resigned on 7 April 2009), 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 one year subject to renewal and retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

BOARD OPERATION

During the year ended 31 December 2009, the Board held six meetings. Attendance of individual directors at the Board meetings in 2009 is as follows:

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

REMUNERATION COMMITTEE

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

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

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

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

The Remuneration Committee had four meetings in 2009 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.

CORPORATE GOVERNANCE REPORT

SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

In 2009, the Audit Committee held four meetings. The attendance record of each member of the Audit Committee is set out below:

Name	**Number of meetings attended**
Mr. Chan King Chung *(Chairman)*	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 RMB2.16 million was charged by Ernst & Young for its audit services provided to the Group. The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditors' Report" on pages 41 to 42 of this report.

COMMUNICATION WITH SHAREHOLDERS

The Company recognises 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 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 such annual general meeting. The Company supports the Code's principle to encourage shareholders' participation.

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. GUO Deying

Mr. GUO Deying, aged 45, 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 17 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). 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 39, 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 17 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, the shares of which are listed on the NASDAQ Stock Exchange, stock symbol: XING) and ZTE Corporation Limited (深圳市中興通訊設備有限公司, the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763.HK), where he was responsible for financial and accounting functions. Mr. Jiang now is the independent non-executive director as well as the member (and chairman) of the audit committee of Launch Tech Company Limited (深圳市元征科技股份有限公司, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange, Stock Code: 8196.HK). 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 39, 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 11 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 Group's research and development of software and testing.

Mr. LI Wang (appointed on 7 April 2009)

Mr. LI Wang, aged 37, obtained a master's degree in business administration from Dalian University of Technology (大連理工大學) in 1997. Mr. Li has 12 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.

NON-EXECUTIVE DIRECTORS

Ms. YANG Xiao

Ms. YANG Xiao, aged 41, 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. Yang does not hold any management in the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Chung

Mr. CHAN King Chung, aged 47, 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 16 years of experience in corporate governance, management and financial controlling, Mr. Chan is currently the company secretary and qualified accountant of HyComm Wireless Limited (華脈無綫通信有限公司) (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 499.HK).

Dr. HUANG Dazhan

Dr. HUANG Dazhan, aged 52, 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 68, 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. YANG Xianzu

Mr. YANG Xianzu, aged 70, 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, 762.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, Stock Code: 489.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 37 years of experience in the telecommunications industry in China. Mr. Yang has extensive knowledge on telecommunications operations and control.

SENIOR MANAGEMENT

Mr. LI Liuqun

Mr. LI Liuqun, aged 47, is a deputy general manager of the Group and is responsible for overseas marketing sales functions. He has about 23 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 47, is a deputy general manager of the Group and is responsible for the human resources and administration functions. Mr. Zhang has 21 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.

Mr. Pan Wenyan

Mr. Pan Wenyan, aged 46, is Chief Information Official (CIO) as well as Representative Corporate Management of the Group, responsible for the internal processes optimization, IT and tendering business. Mr. Pan has 22 years of specialized experience in enterprise information technology and process optimization in various industries. Prior to joining the Group in 2007, Mr. Pan worked in Shenyang Aircraft Industry (Group) Co., Ltd.(瀋陽飛機工業(集團)有限公司) from 1987 to 1998; and in ZTE Corporation Limited (深圳市中興通訊設備有限公司, the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763.HK) from 1999 to 2007. He obtained a bachelor degree and a master degree in Beijing University of Aeronautics and Astronautics consecutively (北京航空航天大學).

Mr. Feng Guoren

Mr. Feng Guoren, aged 36, is the president assistant of the Group, responsible for the management of supply chain system, including planning, procurement, production, warehouse and logistics. Mr. Feng has 15 years of specialized experience in IT industry, including 13 years software development experience and 2 years of mobile phone supply-chain management experience. He obtained a bachelor's degree from the College of Mathematical Sciences and Computer Technology in Central South University (中南大學) and he obtained a master's degree in business administration from Sichuan University (四川大學).

REPORT OF THE DIRECTORS

The Directors of China Wireless Technologies Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Group is a wireless solution and mobile phone 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 profit for the year ended 31 December 2009 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 120.

An interim dividend of HK1 cent per ordinary share was paid on 12 October 2009. The Directors recommend the payment of a final dividend of HK3 cents per ordinary share in respect of the year to shareholders as shown on the register of members at the close of business on 27 May 2010. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

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				
	2009*	2008*	2007*	2006*	2005*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**2,604,865**	1,007,135	1,277,663	640,855	353,995
Profit/(loss) before tax	**263,579**	(64,307)	167,520	53,684	60,318
Tax	**(23,574)**	(11,769)	–	–	(9,442)
Profit/(loss) for the year	**240,005**	(76,076)	167,520	53,684	50,876

	As at 31 December				
	2009*	2008*	2007*	2006*	2005*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**831,430**	722,360	432,000	168,586	64,468
Current assets	**1,418,416**	862,915	812,149	854,087	527,554
Non-current liabilities	**245,096**	225,480	91,083	102,939	2,035
Current liabilities	**1,125,624**	718,696	491,716	488,070	276,291
Net assets	**879,126**	641,099	661,350	431,664	313,696

* 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 Company and 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.

SHARE AWARD PLAN

Details of movement in the Company's shares held for 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 statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$260,179,000 of which HK$62,673,000 has been proposed as a final dividend for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$197,506,000 as at 31 December 2009, 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 69.8% of the total sales for the year and sales to the largest customer included therein amounted to 26.1%. 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.

REPORT OF THE DIRECTORS

DIRECTORS

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

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTOR:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

In accordance with Article 87(1) of the Articles, Mr. Jiang Chao, Ms. Yang Xiao and Mr. Chan King Chung 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 of Hong Kong Limited ("Stock Exchange") (the "Listing Rules") and the board of Directors (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 26 to 29 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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.

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

Except for Mr. Yang Xianzu, who has entered into a service agreement with the Company dated 26 May 2009 for an initial term of one year commencing from 26 May 2009, the remaining independent non-executive directors have entered into service agreements dated 21 November 2009 with the Company for a term of one year commencing from 21 November 2009 with retrospective effect.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 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 2009, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (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 (the "Model Code") for Securities Transactions by Directors of Listed Issuers Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

LONG POSITIONS IN SHARES OF THE COMPANY:

Name of director	*Notes*	Directly Beneficially Owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a trust	Share Option	Total	Approximate percentage of the Company's issued share capital
Mr. Guo Deying	*1 & 2*	–	831,171,248	40,752,000	–	831,171,248	–	871,923,248	42.35
Mr. Jiang Chao	*3*	–	–	–	40,752,000	–	–	40,752,000	1.98
Mr. Li Bin	*4*	1,400,000	–	–	–	–	11,000,000	12,400,000	0.60
Mr. Li Wang	*4*	–	–	–	–	–	3,000,000	3,000,000	0.15
Ms. Yang Xiao	*1&2*	–	831,171,248	40,752,000	–	–	–	871,923,248	42.35
Mr. Chan King Chung	*4*	–	–	–	–	–	192,000	192,000	0.01
Mr.Huang Dazhan	*4*	–	–	–	–	–	192,000	192,000	0.01
Mr. Xie Weixin	*4*	–	–	–	–	–	192,000	192,000	0.01
Mr. Yang Xianzu	*4*	–	–	–	–	–	192,000	192,000	0.01

LONG POSITIONS IN SHARES OF AN ASSOCIATED CORPORATION:

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

Notes:

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

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

2. Mr. Guo was interested in the 40,752,000 shares held by Wintech Consultants Limited as he was one out of the three directors of Wintech Consultants Limited and the other two directors were accustomed to act in accordance with Mr. Guo's direction.

3. Mr. Jiang, an executive director, was interested in the 40,752,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the China Wireless Share Award Plan.

4. The interests of these Directors are in the underlying Shares of the options granted to the relevant Directors by the Company under the Share Option Scheme.

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

As at 31 December 2009, 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	40.37
Barrie Bay Limited ("Barrie Bay")	*2*	831,171,248	Interest of controlled corporation	831,171,248	40.37
HSBC International Trustee Limited ("HSBC Trustee")	*2*	831,171,248	Trustee	831,171,248	40.37

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 2009, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the "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	Number of share options At 1 January 2009	Grant during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Employees									
In aggregate – granted on 20 Jun 2005	8,848,000	–	8,464,000	384,000	–	–	20-06-05	28-06-05 to 27-06-09	0.2175
In aggregate – granted on 27 Jul 2006	29,612,000	–	9,780,000	–	2,864,000	16,968,000	27-07-06	27-07-06 to 26-07-10	0.4615
In aggregate – granted on 27 Jul 2006	3,744,000	–	428,000	–	–	3,316,000	27-07-06	27-07-07 to 26-07-11	0.4615
In aggregate – granted on 18 Sept 2007	18,960,000	–	24,000	–	3,200,000	15,736,000	18-09-07	18-09-08 to 17-09-12	1.415
In aggregate – granted on 18 Sept 2007	3,456,000	–	–	–	192,000	3,264,000	18-09-07	18-09-10 to 17-09-14	1.415
In aggregate – granted on 20 May 2008	14,856,000	–	272,000	–	2,120,000	12,464,000	20-05-08	20-05-09 to 19-05-13	0.674
In aggregate – granted on 20 May 2008	4,120,000	–	–	–	264,000	3,856,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 20 May 2008	13,320,000	–	–	–	1,392,000	11,928,000	20-05-08	20-05-11 to 19-05-15	0.674
In aggregate – granted on 20 May 2008	3,584,000	–	–	–	96,000	3,488,000	20-05-08	20-05-14 to 19-05-18	0.674
In aggregate – granted on 27 Feb 2009	–	5,784,000	–	–	216,000	5,568,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 Feb 2009	–	15,756,000	–	–	1,840,000	13,916,000	27-02-09	27-02-10 to 26-02-12	0.397
In aggregate – granted on 27 Feb 2009	–	4,464,000	–	–	336,000	4,128,000	27-02-09	27-02-10 to 26-02-11	0.397
In aggregate – granted on 27 Feb 2009	–	800,000	–	–	–	800,000	27-02-09	27-02-13 to 26-02-17	0.397
Directors									
In aggregate – granted on 27 Jul 2006	6,000,000	–	–	–	–	6,000,000	27-07-06	27-07-06 to 26-07-10	0.4615
In aggregate – granted on 18 Sept 2007	1,000,000	–	–	–	–	1,000,000	18-09-07	18-09-08 to 17-09-12	1.415
In aggregate – granted on 20 May 2008	3,000,000	–	–	–	–	3,000,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 27 Feb 2009	–	768,000	–	–	–	768,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 Feb 2009	–	4,000,000	–	–	–	4,000,000	27-02-09	27-02-13 to 26-02-17	0.397
Subtotal	110,500,000	31,572,000	18,968,000	384,000	12,520,000	110,200,000			
Business consultants	8,000,000	–	–	–	–	8,000,000	18-09-07	18-09-10 to 17-09-14	1.415
Total	118,500,000	31,572,000	18,968,000	384,000	12,520,000	118,200,000			

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

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

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

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$5,022,000 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	31,572,000	5,022,000

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

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

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

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company comprising the four independent non-executive 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 2009.

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

SUFFICIENCY OF PUBLIC FLOAT

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

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK$246,040,000 (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.

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
China Wireless Technologies Limited

Guo Deying
Chairman

Hong Kong, 16 April 2010

INDEPENDENT AUDITORS' REPORT

安 永

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

We have audited the financial statements of China Wireless Technologies Limited ("the Company") and its subsidiaries (the "Group") set out on pages 43 to 120, which comprise the consolidated and company statements of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation 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)

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 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

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

16 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**2,604,865**	1,007,135
Cost of sales		**(1,890,149)**	(681,454)
Gross profit		**714,716**	325,681
Other income and gains	5	**77,384**	59,518
Selling and distribution costs		**(244,409)**	(200,851)
Administrative expenses		**(265,661)**	(224,411)
Other expenses		**(4,292)**	(978)
Finance costs	7	**(14,156)**	(22,670)
Share of losses of an associate		**(3)**	(596)
PROFIT/(LOSS) BEFORE TAX	6	**263,579**	(64,307)
Income tax expense	10	**(23,574)**	(11,769)
PROFIT/(LOSS) FOR THE YEAR		**240,005**	(76,076)
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation	14	**5,238**	2,812
Income tax effect		**(1,470)**	(323)
		3,768	2,489
Exchange differences on translation of foreign operations		**(750)**	40,381
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**3,018**	42,870
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**243,023**	(33,206)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**11.74 cents**	(3.75) cents
Diluted		**11.59 cents**	N/A

Details of the dividends for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**292,548**	285,481
Investment properties	*15*	**285,254**	243,669
Prepaid land lease payments	*16*	**62,062**	63,437
Intangible assets	*17*	**113,083**	96,577
Interest in an associate	*19*	**8,513**	8,516
Other non-current assets	*23*	**68,167**	24,680
Deferred tax assets	*31*	**1,803**	–
Total non-current assets		**831,430**	722,360
CURRENT ASSETS			
Inventories	*20*	**518,089**	235,681
Trade receivables	*21*	**294,378**	269,893
Bills receivable	*22*	**45,644**	11,812
Prepayments, deposits and other receivables	*23*	**121,616**	150,988
Due from directors	*24*	**551**	93
Pledged time deposits	*25*	**186,737**	69,533
Cash and cash equivalents	*25*	**251,401**	124,915
Total current assets		**1,418,416**	862,915
CURRENT LIABILITIES			
Trade payables	*26*	**369,870**	160,194
Bills payable	*27*	**138,279**	88,158
Other payables and accruals	*28*	**497,153**	183,320
Interest-bearing bank borrowings	*29*	**79,648**	264,086
Due to an associate	*30*	**7,413**	6,951
Tax payable		**33,261**	15,987
Total current liabilities		**1,125,624**	718,696
NET CURRENT ASSETS		**292,792**	144,219
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,124,222**	866,579

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,124,222**	866,579
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*29*	**212,356**	201,281
Deferred tax liabilities	*31*	**28,076**	19,380
Long term rental deposits		**4,664**	4,819
Total non-current liabilities		**245,096**	225,480
Net assets		**879,126**	641,099
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*32*	**20,591**	20,401
Shares held for the Share Award Plan	*34*	**(3,799)**	(2,835)
Reserves	*35*	**799,661**	623,533
Proposed final dividend	*12*	**62,673**	–
Total equity		**879,126**	641,099

Guo Deying
Director

Jiang Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
At 1 January – total equity		**641,099**	661,350
Total comprehensive income/(loss) for the year		**243,023**	(33,206)
Issue of shares, including share premium	*32*	**6,770**	3,162
Equity-settled share option arrangements	*35*	**9,477**	12,628
Shares held for the Share Award Plan	*34*	**(964)**	(2,835)
Transfer to share premium account from share option reserve	*32, 35*	**2,264**	1,803
Transfer from share option reserve to share premium account	*35*	**(2,264)**	(1,803)
Interim 2009 dividend	*12*	**(20,279)**	–
At 31 December – total equity		**879,126**	641,099

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**263,579**	(64,307)
Adjustments for:			
Bank interest income	*5*	**(3,683)**	(2,386)
Finance costs	*7*	**14,156**	22,670
Share of losses of an associate		**3**	596
Depreciation	*6*	**19,122**	18,074
Changes in fair value of investment properties	*6*	**(3,496)**	(9,990)
Amortisation of patents and licences	*6*	**18,541**	16,465
Amortisation of product development costs	*6*	**13,602**	5,951
Recognition of prepaid land lease payments	*6*	**1,370**	1,107
Loss on disposal of items of property, plant and equipment	*6*	**535**	483
Impairment/(reversal of impairment) of trade receivables	*6*	**1,120**	(5,689)
Provision for inventories	*6*	**12,574**	6,410
Equity-settled share option expense	*6*	**9,477**	12,628
		346,900	2,012
(Increase)/decrease in inventories		**(293,871)**	70,649
Increase in trade receivables		**(24,792)**	(75,684)
(Increase)/decrease in bills receivable		**(33,751)**	30,596
Decrease in prepayments, deposits and other receivables		**29,758**	58,629
(Increase)/decrease in amounts due from directors		**(458)**	51
Increase in other non-current assets		**(933)**	(2,034)
Increase in trade payables		**208,926**	61,183
Increase in bills payable		**49,801**	46,137
Increase in other payables and accruals		**296,548**	10,680
Increase/(decrease) in long term rental deposits		**(155)**	4,819
Cash generated from operations		**577,973**	207,038
Tax paid		**(4,515)**	(4,534)
Net cash flows from operating activities		**573,458**	202,504

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows from operating activities		**573,458**	202,504
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		**3,683**	2,386
Purchases of items of property, plant and equipment		**(71,270)**	(128,167)
Proceeds from disposal of items of property, plant and equipment		**569**	355
Additions to product development costs	*17*	**(35,793)**	(48,238)
Additions to patents and licences	*17*	**(12,970)**	(32,010)
Addition to prepaid land lease payments		**–**	(75,327)
Increase in pledged time deposits		**(117,197)**	(40,329)
Net cash flows used in investing activities		**(232,978)**	(321,330)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	*32*	**6,770**	3,162
New bank loans		**701,269**	970,664
Repayment of bank loans		**(875,704)**	(792,071)
Increase/(decrease) in an amount due to an associate		**462**	(435)
Interest paid		**(25,536)**	(31,684)
Purchase of shares held for the Share Award Plan	*34*	**(964)**	(2,835)
Dividends paid		**(20,279)**	–
Net cash flows from/(used in) financing activities		**(213,982)**	146,801
NET INCREASE IN CASH AND CASH EQUIVALENTS		**126,498**	27,975
Cash and cash equivalents at beginning of year		**124,915**	91,222
Effect of foreign exchange rate changes, net		**(12)**	5,718
CASH AND CASH EQUIVALENTS AT END OF YEAR		**251,401**	124,915
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*25*	**251,401**	124,915

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**339**	433
Investments in subsidiaries	*18*	**44,991**	44,991
Intangible assets	*17*	**389**	1,945
Total non-current assets		**45,719**	47,369
CURRENT ASSETS			
Due from subsidiaries	*18*	**221,085**	257,511
Deposits and other receivables	*23*	**574**	439
Pledged time deposits	*25*	**26,121**	25,000
Cash and cash equivalents	*25*	**16,807**	3,473
Total current assets		**264,587**	286,423
CURRENT LIABILITIES			
Other payables and accruals	*28*	**4,296**	230
Interest-bearing bank borrowings	*29*	**–**	53,863
Total current liabilities		**4,296**	54,093
NET CURRENT ASSETS		**260,291**	232,330
Net assets		**306,010**	279,699
EQUITY			
Issued capital	*32*	**20,591**	20,401
Shares held for the Share Award Plan	*34*	**(3,799)**	(2,835)
Reserves	*35*	**226,545**	262,133
Proposed final dividends	*12*	**62,673**	–
Total equity		**306,010**	279,699

Guo Deying
Director

Jiang Chao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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 2009. 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 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments – Disclosure of information about segment assets* (early adopted)
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 8 and HKAS1 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

HKFRS 8 OPERATING SEGMENTS

HKFRS 8 *Operating Segments*, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

HKAS 1 (REVISED) PRESENTATION OF FINANCIAL STATEMENTS

HKAS 1 (Revised) *Presentation of Financial Statements* introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

2.3 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that 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 profit or loss 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 statement of financial position 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 profit or loss 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 profit or loss 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED PARTIES (CONTINUED)

(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.

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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the 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 profit or loss. Any subsequent revaluation surplus is credited to the profit or loss 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%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

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

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss 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 manufacturing 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.

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 end of the reporting period.

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

Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss 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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

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

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 profit or loss 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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 profit or loss 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 the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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 profit or loss 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 profit or loss 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 profit or loss 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.

INVESTMENT AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT AND OTHER FINANCIAL ASSETS (CONTINUED)

Initial recognition and measurement (continued)

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

The Group's financial assets include cash and bank balances and trade and other receivables.

Subsequent measurement

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

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

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

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of HKAS39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, an amount due to an associate and interesting-bearing bank borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES (CONTINUED)

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 profit or loss.

PROVISIONS

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

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

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

INCOME TAX

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT GRANTS AND SUBSIDIES

Grants and subsidies 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 credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual installments.

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 (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS (CONTINUED)

Share-based payment transactions (continued)

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

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

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

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

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

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 profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS (CONTINUED)

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 profit or loss 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 expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

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

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

FOREIGN CURRENCIES

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

The functional currency of subsidiaries in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rate ruling at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rate ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries in Mainland China 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 end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

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

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

JUDGEMENTS (CONTINUED)

Classification between investment properties and owner-occupied properties (continued)

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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for product warranties

The Group provides one-year warranty 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. At 31 December 2009, the carrying amount of provision for product warranties was HK$13,363,000 (2008: HK$5,927,000) (note 28).

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 2009, the best estimate of the carrying amount of capitalised product development costs was HK$86,140,000 (2008: HK$63,965,000) (note 17).

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. At 31 December 2009, the Group had inventories that were measured at net realisable value (where lower than cost) of HK$17,453,000 (2008: Nil).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

Revenue recognition

The Group recorded reductions to revenue for price protections, special pricing arrangements, based on estimates of future price reductions and certain agreed customer inventories at the date of the price adjustments. Possible changes in these estimates could result in revisions to sales in future periods.

Impairment of trade and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and aging analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. At 31 December 2009, impairment losses of HK$1,087,000 (2008: HK$6,018,000) have been recognised for trade receivables.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of accumulated unrecognised tax losses at 31 December 2009 was HK$62,479,000 (2008: HK$112,026,000). Further details are contained in note 31 to the financial statements.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments 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.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, share of losses of an associate, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, pledged time deposits, deferred tax assets and interest in an associate as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities and the amount due to an associate as these liabilities are managed on a group basis.

4. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2009

	Mobile phone HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	2,604,865	–	2,604,865
Other revenue	–	19,553	19,553
Total	2,604,865	19,553	2,624,418
Segment results	259,773	18,574	278,347
Reconciliation:			
Interest income			3,683
Corporate and other unallocated expenses			(4,292)
Finance costs			(14,156)
Share of loss of an associate			(3)
Profit before tax			263,579
Segment assets	1,504,678	296,714	1,801,392
Reconciliation:			
Interest in an associate			8,513
Other unallocated assets			439,941
Total assets			2,249,846
Segment liabilities	1,005,302	4,664	1,009,966
Reconciliation:			
Due to an associate			7,413
Other unallocated liabilities			353,341
Total liabilities			1,370,720
Other segment information:			
Impairment of trade receivables	1,120	–	1,120
Provision for inventories	12,574	–	12,574
Fair value gains on investment properties	–	3,496	3,496
Product warranty provision	17,566	–	17,566
Depreciation and amortisation	52,419	216	52,635
Capital expenditure	108,952	–	108,952

4. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2008

	Mobile phone HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	1,007,135	–	1,007,135
Other revenue	–	13,776	13,776
Total	1,007,135	13,776	1,020,911
Segment results	(62,534)	20,085	(42,449)
Reconciliation:			
Interest income			2,386
Corporate and other unallocated expenses			(978)
Finance costs			(22,670)
Share of loss of an associate			(596)
Loss before tax			(64,307)
Segment assets	1,128,956	253,355	1,382,311
Reconciliation:			
Interest in an associate			8,516
Other unallocated assets			194,448
Total assets			1,585,275
Segment liabilities	431,672	4,819	436,491
Reconciliation:			
Due to an associate			6,951
Other unallocated liabilities			500,734
Total liabilities			944,176
Other segment information:			
Reversal of impairment of trade receivables	(5,689)	–	(5,689)
Provision for inventories	6,410	–	6,410
Fair value gains on investment properties	–	9,990	9,990
Product warranty provision	12,948	–	12,948
Depreciation and amortisation	41,439	158	41,597
Capital expenditure	250,769	41,987	292,756

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:

	2009 HK$'000	2008 HK$'000
Revenue		
Sale of mobile phones	**2,604,865**	1,007,135
Other income		
Bank interest income	**3,683**	2,386
Government grants and subsidies *	**48,554**	31,430
Gross rental income	**19,553**	13,776
Others	**2,098**	1,936
	73,888	49,528
Gains		
Fair value gains on investment properties	**3,496**	9,990
	77,384	59,518

* 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.

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2009 HK$'000	2008 HK$'000
Cost of inventories sold		**1,877,575**	675,044
Depreciation	*14*	**19,122**	18,074
Amortisation of patents and licences *	*17*	**18,541**	16,465
Recognition of prepaid land lease payments	*16*	**1,370**	1,107
Research and development costs:			
Product development costs amortised *	*17*	**13,602**	5,951
Current year expenditure		**71,142**	57,780
		84,744	63,731
Operating lease rental		**7,571**	6,574
Auditors' remuneration		**2,624**	2,464
Staff costs (including directors' remuneration *(note 8)*):			
Salaries and wages		**203,261**	210,718
Staff welfare expenses		**12,846**	5,311
Pension scheme contributions		**20,456**	24,781
Equity-settled share option expense		**9,477**	12,628
		246,040	253,438
Impairment/(reversal of impairment) of trade receivables	*21*	**1,120**	(5,689)
Provision for inventories		**12,574**	6,410
Product warranty provision	*28*	**17,566**	12,948
Loss on disposal of items of property, plant and equipment		**535**	483
Foreign exchange differences, net		**1,564**	(5,370)
Net rental income on investment properties		**(18,574)**	(9,829)
Changes in fair value of investment properties	*15*	**(3,496)**	(9,990)

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

7. FINANCE COSTS

	Group	
	2009	2008
	HK$'000	HK$'000
Interest on:		
Bank loans	**23,173**	28,132
Discounted bills receivable	**2,363**	3,552
	25,536	31,684
Less: Interest capitalised	**(11,380)**	(9,014)
	14,156	22,670

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Fees	**413**	410
Other emoluments		
Salaries, allowances and benefits in kind	**5,467**	4,035
Performance related bonuses	**567**	–
Equity-settled share option expense	**727**	–
Pension scheme contributions	**32**	7
	6,793	4,042
	7,206	4,452

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options which has been recognised to the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors remuneration disclosures.

8. DIRECTORS' REMUNERATION (CONTINUED)

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2009			
Dr. Huang Dazhan	**120**	**14**	**134**
Mr. Xie Weixin	**57**	**14**	**71**
Mr. Chan King Chung	**100**	**14**	**114**
Mr. Yang Xianzu	**136**	**14**	**150**
	413	**56**	**469**
2008			
Dr. Huang Dazhan	120	–	120
Mr. Xie Weixin	56	–	56
Mr. Chan King Chung	100	–	100
Mr. Yang Xianzu	134	–	134
	410	–	410

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009					
Executive directors:					
Mr. Guo Deying	**2,043**	**–**	**–**	**3**	**2,046**
Mr. Jiang Chao	**1,362**	**567**	**–**	**7**	**1,936**
Mr. Li Wang	**715**	**–**	**223**	**8**	**946**
Mr. Li Bin	**666**	**–**	**448**	**7**	**1,121**
	4,786	**567**	**671**	**25**	**6,049**
Non-executive director:					
Ms. Yang Xiao	**681**	**–**	**–**	**7**	**688**
	5,467	**567**	**671**	**32**	**6,737**

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008			
Executive directors:			
Mr. Guo Deying	2,017	–	2,017
Mr. Jiang Chao	1,345	4	1,349
	3,362	4	3,366
Non-executive directors:			
Ms. Yang Xiao	673	3	676
Ms. Ma Dehui	–	–	–
	673	3	676
	4,035	7	4,042

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all directors (2008: three), details of the remuneration of directors during the year are set out in note 8 above. Details of the remuneration of the remaining two non-director, highest paid employees for the year ended 31 December 2008 are as follows:

	HK$'000
Salaries, allowances and benefits in kind	628
Performance related bonuses	112
Equity-settled share option expense	302
Pension scheme contributions	7
	1,049

The remuneration of both non-director and highest paid employees fell within the band of nil to HK$1,000,000 for the year ended 31 December 2008.

During the year ended 31 December 2008, 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 profit or loss 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. INCOME TAX EXPENSE

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 (2008: 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.

	2009 **HK$'000**	2008 HK$'000
Group:		
Current – Mainland China	**18,151**	5,539
Deferred *(note 31)*	**5,423**	6,230
Total tax charge for the year	**23,574**	11,769

10. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense applicable to profit/(loss) before tax at 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:

	Group	
	2009	2008
	HK$'000	HK$'000
Profit/(loss) before tax	**263,579**	(64,307)
Tax at the statutory tax rate of 25%	**65,895**	(16,076)
Lower tax rates for specific provinces or enacted by local authorities	**(53,927)**	(512)
Effect of increase in tax rates on deferred tax	**405**	1,536
Adjustments in respect of current tax of previous periods	**(4,933)**	–
Losses attributable to an associate	**1**	100
Income not subject to tax	**(3,078)**	(886)
Expenses not deductible for tax	**21,482**	4,788
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**3,695**	–
Tax losses utilised from previous periods	**(9,132)**	–
Tax losses not recognised	**3,166**	22,819
Tax charge at the Group's effective rate	**23,574**	11,769
The Group's effective income tax rate	**8.9%**	(18.3%)

The Group's subsidiaries located in Mainland China are subject to corporate income tax ("CIT") at a rate of 25%. Certain subsidiaries of the Group operating in Mainland China are eligible for certain tax concessions. Major tax concessions applicable to the entities within the Group are detailed as follows:

(a) Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad"), the Company's wholly-owned subsidiary, has been assessed as a high-technology enterprise and was subject to CIT at a rate of 15% for the year ended 31 December 2009. In addition, Shenzhen Coolpad has been assessed as a software 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 reduced rate of 7.5% for the current year; and

(b) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd., 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 year ended 31 December 2009.

10. INCOME TAX EXPENSE (CONTINUED)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by the PRC subsidiaries in respect of their earnings generated from 1 January 2008.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of HK$31,307,000 (2008: HK$24,043,000) which has been dealt with in the financial statements of the Company (note 35).

12. DIVIDENDS

	2009 **HK$'000**	2008 HK$'000
Interim – HK1 cent (2008: Nil) per ordinary share	**20,279**	–
Proposed final – HK3 cents (2008: Nil) per ordinary share	**62,673**	–
	82,952	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 of 2,044,155,189 (2008: 2,031,008,877) 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.

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:

	2009	2008
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company used in the basic and diluted earnings/(loss) per share calculations	**240,005**	(76,076)

	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculations	**2,044,155,189**	2,031,008,877
Effect of dilution – weighted average number of ordinary shares: share options	**26,430,746**	–
	2,070,585,935	2,031,008,877

No adjustment was made to the basic loss per share amount presented for the year ended 31 December 2008 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

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
31 December 2009						
Cost or valuation:						
At 1 January 2009	154,326	3,891	73,757	6,280	83,189	321,443
Additions	194	124	5,751	3,266	50,854	60,189
Disposals	–	–	(4,565)	(188)	–	(4,753)
Transfer to investment properties *(note 15)*	(39,155)	–	–	–	–	(39,155)
Transfers	–	–	110	–	(110)	–
Exchange realignment	(11)	–	(6)	–	(7)	(24)
At 31 December 2009	115,354	4,015	75,047	9,358	133,926	337,700
Accumulated depreciation:						
At 1 January 2009	4,954	1,328	25,602	4,078	–	35,962
Transfer to investment properties *(note 15)*	(1,050)	–	–	–	–	(1,050)
Depreciation provided during the year	5,694	800	11,925	703	–	19,122
Write-back of revaluation	(5,238)	–	–	–	–	(5,238)
Disposals	–	–	(3,480)	(169)	–	(3,649)
Exchange realignment	–	–	5	–	–	5
At 31 December 2009	4,360	2,128	34,052	4,612	–	45,152
Net book value:						
At 31 December 2009	110,994	1,887	40,995	4,746	133,926	292,548
At 31 December 2008	149,372	2,563	48,155	2,202	83,189	285,481
Analysis of cost or valuation:						
At cost	1,674	4,015	75,047	9,358	133,926	224,020
At valuation	113,680	–	–	–	–	113,680
	115,354	4,015	75,047	9,358	133,926	337,700

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	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 2008						
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	(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

14. PROPERTY, PLANT AND EQUIPMENT (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 end of the reporting period by Debenham Tie Leung Limited, independent professionally qualified valuers, at an aggregate open market value of HK$110,236,000 based on their existing use. A revaluation surplus, net of tax, of HK$3,768,000, resulting from the above valuations, has been credited to other comprehensive income.

Had these buildings been carried at historical cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$85,181,000.

At 31 December 2009, certain of the Group's buildings with a net book value of approximately HK$40,169,000 (2008: HK$78,348,000) were pledged to secure general banking facilities granted to the Group (note 29).

Company

	Motor vehicles HK$'000
31 December 2009	
Cost:	
At 1 January 2009 and 31 December 2009	518
Accumulated depreciation:	
At 1 January 2009	85
Depreciation provided during the year	94
At 31 December 2009	179
Net book value:	
At 31 December 2009	339
At 31 December 2008	433

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company (continued)

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

15. INVESTMENT PROPERTIES

	Group	
	2009 HK$'000	2008 HK$'000
Carrying amount at 1 January	**243,669**	28,917
Transfer from owner-occupied properties *(note 14)*	**38,105**	202,949
Net profit from a fair value adjustment	**3,496**	9,990
Exchange realignment	**(16)**	1,813
Carrying amount at 31 December	**285,254**	243,669

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 2009 by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$285,254,000 on an open market, existing use basis.

At 31 December 2009, certain of the Group's investment properties with a carrying value of approximately HK$131,482,000 (2008: HK$146,942,000) were pledged to secure general banking facilities granted to the Group (note 29).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**64,808**	12,453
Addition	**–**	52,681
Recognised during the year	**(1,370)**	(1,107)
Exchange realignment	**(5)**	781
Carrying amount at 31 December	**63,433**	64,808
Current portion included in prepayments, deposits and other receivables *(note 23)*	**(1,371)**	(1,371)
Non-current portion	**62,062**	63,437

At 31 December 2009, the Group's prepaid land lease payments with an aggregate carrying amount of HK$62,062,000 (2008: HK$63,437,000) were pledged to secure general banking facilities granted to the Group (note 29).

17. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2009			
Cost:			
At 1 January 2009	**82,315**	**70,864**	**153,179**
Additions	**35,793**	**12,970**	**48,763**
Exchange realignment	**(5)**	**(5)**	**(10)**
At 31 December 2009	**118,103**	**83,829**	**201,932**
Accumulated amortisation:			
At 1 January 2009	**18,350**	**38,252**	**56,602**
Provided during the year	**13,602**	**18,541**	**32,143**
Exchange realignment	**11**	**93**	**104**
At 31 December 2009	**31,963**	**56,886**	**88,849**
Net carrying amount:			
At 31 December 2009	**86,140**	**26,943**	**113,083**
31 December 2008			
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 carrying amount:			
At 31 December 2008	63,965	32,612	96,577

17. INTANGIBLE ASSETS (CONTINUED)

Company

	Patents and licences HK$'000
31 December 2009	
Cost:	
At 1 January 2009 and 31 December 2009	**7,780**
Accumulated amortisation:	
At 1 January 2009	**5,835**
Provided during the year	**1,556**
At 31 December 2009	**7,391**
Net carrying amount:	
At 31 December 2009	**389**
31 December 2008	
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 carrying amount:	
At 31 December 2008	1,945

18. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**44,991**	44,991

The amounts due from subsidiaries included in the Company's current assets of HK$221,085,000 (2008: HK$257,511,000) are unsecured, interest-free and repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Company	Place of registration and operations	Nominal value of issued/ fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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	RMB403,000,000	–	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.

19. INTEREST IN AN ASSOCIATE

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**8,513**	8,516

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:

	2009	2008
	HK$'000	HK$'000
Assets	**34,050**	34,157
Liabilities	**–**	91
Revenue	**–**	2,438
Loss	**(13)**	(2,386)

On 3 February 2009, a resolution was passed by the associate's board of directors to wind up the associate. The winding up of the associate was completed on 25 January 2010.

20. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**285,894**	126,485
Work in progress	**92,301**	62,796
Finished goods	**139,894**	46,400
	518,089	235,681

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

21. TRADE RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**295,465**	275,911
Impairment	**(1,087)**	(6,018)
	294,378	269,893

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. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Trade receivables are non-interest-bearing.

21. TRADE RECEIVABLES (CONTINUED)

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

	Group	
	2009	2008
	HK$'000	HK$'000
Within 3 months	**292,426**	245,879
4 to 6 months	**1,702**	24,011
7 to 12 months	**250**	3
1 to 2 years	**510**	–
More than 2 years	**577**	6,018
	295,465	275,911
Less: Impairment	**(1,087)**	(6,018)
	294,378	269,893

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**6,018**	11,087
Impairment losses recognised/(reversed) *(note 6)*	**1,120**	(5,689)
Amount written off as uncollectible	**(6,046)**	–
Exchange realignment	**(5)**	620
	1,087	6,018

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,087,000 (2008: HK$6,018,000) with a carrying amount before provision of HK$1,087,000 (2008: HK$6,018,000). The Group does not hold any collateral or other credit enhancements over these balances.

21. TRADE RECEIVABLES (CONTINUED)

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

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**292,426**	245,879
Less than 3 months past due	**1,702**	24,011
More than 3 months past due	**250**	3
	294,378	269,893

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 Group's trade receivables were pledged as security for the Group's bank loans (note 29).

22. BILLS RECEIVABLE

An aged analysis of the bills receivable as at the end of the reporting period, based on the issue date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 3 months	**45,644**	11,812

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

At 31 December 2008 and 2009, the Group did not have any past due or impaired bills receivable.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to suppliers	**102,657**	95,004	**531**	–
Current portion of prepaid land lease payment *(note 16)*	**1,371**	1,371	**–**	–
Deposits and other receivables	**17,588**	48,867	**43**	439
Prepayment for purchase of leasehold land	**22,644**	22,646	**–**	–
Prepayment for purchase of Properties, plants and equipment	**42,424**	–	**–**	–
Prepaid expenses	**3,099**	2,034	**–**	–
Subsidy receivables	**–**	5,746	**–**	–
	189,783	175,668	**574**	439
Non-current portion	**(68,167)**	(24,680)	**–**	–
	121,616	150,988	**574**	439

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 2009 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2009 HK$'000
Mr. Guo Deying	187	380	93
Mr. Jiang Chao	7	58	–
Mr. Li Wang	357	1,135	–
	551		93

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

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

		Group		Company	
	Note	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Cash and bank balances		**251,401**	124,915	**16,807**	3,473
Time deposits		**186,737**	69,533	**26,121**	25,000
		438,138	194,448	**42,928**	28,473
Less: Pledged time deposits:					
– Pledged for bills payable	*27*	**(110,165)**	(26,987)	**–**	–
– Pledged for issuance of letters of credit		**(76,572)**	(42,546)	**(26,121)**	(25,000)
		(186,737)	(69,533)	**(26,121)**	(25,000)
Cash and cash equivalents		**251,401**	124,915	**16,807**	3,473

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (CONTINUED)

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to HK$233,845,000 (2008: HK$121,169,000). 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 end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 3 months	**365,196**	143,721
4 to 6 months	**1,084**	12,533
7 to 12 months	**577**	2,730
More than 1 year	**3,013**	1,210
	369,870	160,194

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

27. BILLS PAYABLE

An aged analysis of the bills payable as at the end of the reporting period, based on the issue date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 3 months	**138,279**	–
4 to 6 months	**–**	88,158
	138,279	88,158

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

At 31 December 2009, the Group's bills payable were secured by time deposits of HK$110,165,000 (2008: HK$26,987,000) (note 25).

28. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2009	2008	**2009**	2008
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accrued royalties		**90,548**	7,061	**–**	–
Advances from customers		**98,600**	75,076	**2,323**	–
Product warranty provision	*(a)*	**13,363**	5,927	**–**	–
Other accruals		**2,135**	2,453	**–**	–
Other payables		**292,507**	92,803	**1,973**	230
		497,153	183,320	**4,296**	230

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

28. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Note:

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**5,927**	7,064
Additional provision	**17,566**	12,948
Amounts utilised during the year	**(10,131)**	(13,689)
Exchange realignment	**1**	(396)
At 31 December	**13,363**	5,927

The Group provides one-year warranty 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.

29. INTEREST-BEARING BANK BORROWINGS

Group	2009 Effective interest rate (%)	2009 Maturity	2009 HK$'000	2008 Effective interest rate (%)	2008 Maturity	2008 HK$'000
Current						
Bank loans – secured	**5.76-5.94**	**2010**	**72,686**	5.04-7.47	2009	177,185
Bank loans – unsecured	**5.4-5.94**	**2010**	**6,962**	5.04	2009	22,716
Import and trust receipt loans			**–**	3.75-8.05	2009	64,185
			79,648			264,086
Non-current						
Bank loans – secured	**5.76-5.94**	**2011-2013**	**183,986**	5.76-6.48	2010-2012	199,901
Bank loans – unsecured	**5.4-5.94**	**2011-2018**	**28,370**	5.87	2010-2018	1,380
			212,356			201,281
			292,004			465,367
Analysed into bank loans repayable:						
Within one year or on demand			**79,648**			264,086
In the second year			**77,376**			72,938
In the third to fifth years, inclusive			**134,458**			127,633
Beyond five years			**522**			710
			292,004			465,367

Company	2008 Effective interest rate (%)	2008 Maturity	2008 HK$'000
Current			
Import and trust receipt loans	3.75-6.75	2009	53,863

29. INTEREST-BEARING BANK 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 end of the reporting period of approximately HK$171,651,000 (2008: HK$225,290,000);

(ii) the pledge of the Group's leasehold land which had an aggregate carrying value at the end of the reporting period of approximately HK$62,062,000 (2008: HK$63,437,000); and

(iii) charges over the Group's rental income on certain investment properties.

At 31 December 2008, certain bank loans of the Group were also secured by floating charges over the Group's inventories and trade receivables, totalling HK$235,681,000 and HK$269,893,000, respectively.

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

	2009	2008
	HK$'000	HK$'000
Personal guarantees from related parties:		
– Mr. Guo Deying	**290,744**	303,359
– Ms. Yang Xiao	**290,744**	224,888
– Mr. Jiang Chao and his spouse	**–**	190,814
Corporate guarantees from independent third-parties:		
– Dongguan Songshan Lake Industrial Development Co., Ltd.	**1,260**	1,380
– Shenzhen Small and Medium Business Guarantee Centre	**–**	22,716

(b) At the end of the reporting period, the Group's bank borrowings of HK$292,004,000 bear interest at floating rates.

(c) At the end of the reporting period, the Group's bank borrowings of HK$292,004,000 were denominated in RMB.

(d) The directors estimate that the fair values of the Group's borrowings determined by discounting their future cash flows at the prevailing interest rates approximate to their carrying amounts.

30. DUE TO AN ASSOCIATE

The amount due to an associate is non-trade in nature, unsecured, interest-free and repayable on demand. The winding up of the associate was completed on 25 January 2010.

31. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

Group	Revaluation of buildings HK$'000	Withholding taxes HK$'000	Total HK$'000
At 1 January 2008	11,992	–	11,992
Debited to equity during the year	323	–	323
Charged to the profit or loss for the year *(note 10)*	6,230	–	6,230
Exchange differences	835	–	835
At 31 December 2008 and 1 January 2009	**19,380**	**–**	**19,380**
Debited to equity during the year	**1,470**	**–**	**1,470**
Charged to the profit or loss for the year	**3,531**	**3,695**	**7,226**
At 31 December 2009	**24,381**	**3,695**	**28,076**

DEFERRED TAX ASSETS

Group	Amortisation allowance in excess of related amortisation HK$'000
Charged to the profit or loss for the year and at 31 December 2009	1,803

The Group had accumulated tax losses arising in Mainland China of HK$62,479,000 at 31 December 2009 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.

32. SHARE CAPITAL

	2009 HK$'000	2008 HK$'000
Authorised:		
20,000,000,000 (2008: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,059,084,000 (2008: 2,040,116,000) ordinary shares of HK$0.01 each	**20,591**	20,401

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

(a) The subscription rights attaching to 8,464,000 share options were exercised at the subscription price of HK$0.2175 per share (note 33), resulting in the issue of 8,464,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$1,840,920.

(b) The subscription rights attaching to 10,208,000 share options were exercised at the subscription price of HK$0.4615 per share (note 33), resulting in the issue of 10,208,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$4,710,992.

(c) The subscription rights attaching to 24,000 share options were exercised at the subscription price of HK$1.415 per share (note 33), resulting in the issue of 24,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$33,960.

(d) The subscription rights attaching to 272,000 share options were exercised at the subscription price of HK$0.674 per share (note 33), resulting in the issue of 272,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$183,328.

32. SHARE CAPITAL (CONTINUED)

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 2008		2,022,976,000	20,230	194,758	214,988
Share options exercised		17,140,000	171	2,991	3,162
Transfer from share option reserve		–	–	1,803	1,803
At 31 December 2008 and 1 January 2009		**2,040,116,000**	**20,401**	**199,552**	**219,953**
Share options exercised	*(a) to (d)*	**18,968,000**	**190**	**6,580**	**6,770**
Transfer from share option reserve	*35*	**–**	**–**	**2,264**	**2,264**
At 31 December 2009		**2,059,084,000**	**20,591**	**208,396**	**228,987**

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

33. SHARE OPTION SCHEME

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. 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.

33. SHARE OPTION SCHEME (CONTINUED)

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

	2009		2008	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
At 1 January	**0.765**	**118,500**	0.569	155,384
Granted during the year	**0.397**	**31,572**	0.680	48,228
Exercised during the year	**0.357**	**(18,968)**	0.1845	(17,140)
Forfeited during the year	**0.773**	**(12,520)**	0.95	(19,972)
Expired during the year	**0.2175**	**(384)**	0.175	(48,000)
At 31 December	**0.733**	**118,200**	0.765	118,500

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.493 (2008: HK$0.725).

33. SHARE OPTION SCHEME (CONTINUED)

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

2009

Number of options '000	Exercise price* HK$ per share	Exercise period
22,968	**0.4615**	**27-07-06 to 26-07-10**
3,316	**0.4615**	**27-07-07 to 26-07-11**
16,736	**1.415**	**18-09-08 to 17-09-12**
11,264	**1.415**	**18-09-10 to 17-09-14**
12,464	**0.674**	**20-05-09 to 19-05-13**
6,856	**0.674**	**20-05-10 to 19-05-14**
11,928	**0.674**	**20-05-11 to 19-05-15**
3,488	**0.674**	**20-05-14 to 19-05-18**
10,336	**0.397**	**27-02-10 to 26-02-14**
13,916	**0.397**	**27-02-10 to 26-02-12**
4,128	**0.397**	**27-02-10 to 26-02-11**
800	**0.397**	**27-02-13 to 26-02-17**
118,200		

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
118,500		

* 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.

33. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the year was approximately HK$5,022,000 (2008: HK$16,647,000) of which the Group recognised a share option expense of HK$2,633,000 (2008: HK$3,452,000) during the year ended 31 December 2009.

At 31 December 2009, the equity-settled share option expenses under the Scheme of HK$20,356,000 had not been recognised in the profit or loss.

The fair value of the equity-settled share options granted during the year was estimated as at the date of grant by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer, at HK$5,022,000 using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2009	2008
Dividend yield (HK$)	**0.01**	0~0.01
Expected volatility (%)	**71.56~87.94**	67.98~70.84
Historical volatility (%)	**71.56~87.94**	67.98~70.84
Risk-free interest rate (%)	**0.75~1.87**	1.985~2.803
Expected life of options (year)	**N/A**	3 to 9.5
Weighted average share price (HK$ per share)	**0.365**	0.680
Exercise multiple	**2.5**	N/A

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 18,968,000 share options exercised during the year resulted in the issue of 18,968,000 ordinary shares of the Company and new share capital of HK$190,000 and share premium of HK$6,580,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 118,200,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 118,200,000 additional ordinary shares of the Company and additional share capital of HK$1,182,000 and share premium of HK$85,565,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 88,184,000 share options outstanding under the Scheme, which represented approximately 4.22% 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 purchased a total number of 2,800,000 (2008: 16,224,000) ordinary shares of the Company at a total cash consideration of approximately HK$964,000 (2008: HK$2,835,000), including transaction costs. At 31 December 2009, none of these purchased shares was awarded.

At the date of approval of these financial statements, 600,000 purchased shares were 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	Proposed final dividend HK$'000	Total HK$'000
At 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)	–	–	–	–
Equity-settled share option arrangements		–	–	–	–	–	12,628	–	–	–	12,628
Shares purchased for the Share Award Plan	34	–	(2,835)	–	–	–	–	–	–	–	(2,835)
Total comprehensive loss		–	–	–	2,489	–	–	40,381	(76,076)	–	(33,206)
At 31 December 2008 and 1 January 2009		**199,552***	**(2,835)**	**390***	**52,438***	**41,822***	**21,438***	**97,309***	**210,584***	**–**	**620,698**
Issue of shares	32	**6,580**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,580**
Transfer from share option reserve	32	**2,264**	**–**	**–**	**–**	**–**	**(2,264)**	**–**	**–**	**–**	**–**
Equity-settled share option arrangements		**–**	**–**	**–**	**–**	**–**	**9,477**	**–**	**–**	**–**	**9,477**
Shares purchased for the Share Award Plan	34	**–**	**(964)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(964)**
Interim 2009 dividend	12	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,279)**	**–**	**(20,279)**
Proposed final 2009 dividend	12	**(55,882)**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,791)**	**62,673**	**–**
Total comprehensive income		**–**	**–**	**–**	**3,768**	**–**	**–**	**(750)**	**240,005**	**–**	**243,023**
At 31 December 2009		**152,514***	**(3,799)**	**390***	**56,206***	**41,822***	**28,651***	**96,559***	**423,519***	**62,673**	**858,535**

* These reserve accounts comprise the consolidated reserves of HK$799,661,000 (2008: HK$623,533,000) in the consolidated statement of financial position.

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$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2008		194,758	–	44,992	10,613	388	(28,280)	–	222,471
Issue of shares	32	2,991	–	–	–	–	–	–	2,991
Transfer from share option reserve	32	1,803	–	–	(1,803)	–	–	–	–
Equity-settled share option arrangements		–	–	–	12,628	–	–	–	12,628
Shares purchased for the Share Award Plan	34	–	(2,835)	–	–	–	–	–	(2,835)
Total comprehensive income	11	–	–	–	–	–	24,043	–	24,043
At 31 December 2008 and 1 January 2009		**199,552***	**(2,835)**	**44,992***	**21,438***	**388***	**(4,237)***	**–**	**259,298**
Issue of shares	32	**6,580**	**–**	**–**	**–**	**–**	**–**	**–**	**6,580**
Transfer from share option reserve	32	**2,264**	**–**	**–**	**(2,264)**	**–**	**–**	**–**	**–**
Equity-settled share option arrangements		**–**	**–**	**–**	**9,477**	**–**	**–**	**–**	**9,477**
Shares purchased for the Share Award Plan	34	**–**	**(964)**	**–**	**–**	**–**	**–**	**–**	**(964)**
Interim 2009 dividend	12	**–**	**–**	**–**	**–**	**–**	**(20,279)**	**–**	**(20,279)**
Proposed final 2009 dividend	12	**(55,882)**	**–**	**–**	**–**	**–**	**(6,791)**	**62,673**	**–**
Total comprehensive income	11	**–**	**–**	**–**	**–**	**–**	**31,307**	**–**	**31,307**
At 31 December 2009		**152,514***	**(3,799)**	**44,992***	**28,651***	**388***	**–**	**62,673**	**285,419**

* These reserve accounts comprise the reserves of HK$226,545,000 (2008: HK$262,133,000) in the Company's statement of financial position.

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 of 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 end of the reporting period, the Group had no significant contingent liabilities.

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

	Company	
	2009	2008
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	457,727

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 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**21,721**	19,051
In the second to fifth years, inclusive	**13,639**	28,335
	35,360	47,386

(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 end of reporting period to be made by the Group were as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**3,583**	6,472
In the second to fifth years, inclusive	**1,273**	9,332
	4,856	15,804

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 (b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted, but not provided for:		
Patents and licences	**–**	4,318
Land and buildings	**25,658**	22,571
	25,658	26,889

At the end of the reporting period, the Company had no significant capital commitments.

39. RELATED PARTY TRANSACTIONS

(A) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,975**	5,476
Pension scheme contributions	**51**	26
Equity-settled share option expense	**941**	806
Total compensation paid to key management personnel	**7,967**	6,308

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 end of the reporting period are disclosed in notes 24 and 30 to the financial statements, respectively.

(C) GUARANTEE PROVIDED BY RELATED PARTIES

At the end of the reporting period, 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.

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

FINANCIAL ASSETS – LOANS AND RECECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**294,378**	269,893
Bills receivable	**45,644**	11,812
Financial assets included in prepayments, deposits and other receivables	**17,588**	54,613
Pledged time deposits	**186,737**	69,533
Cash and cash equivalents	**251,401**	124,915
	795,748	530,766

FINANCIAL LIABILITIES – FINANCIAL LIABILITIES AT AMORTISED COST

	Group	
	2009	2008
	HK$'000	HK$'000
Trade payables	**369,870**	160,194
Bills payable	**138,279**	88,158
Financial liabilities included in other payables and accruals	**186,556**	92,803
Interest-bearing bank borrowings	**292,004**	465,367
Due to an associate	**7,413**	6,951
	994,122	813,473

40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL ASSETS – LOANS AND RECEIVABLES

	Company	
	2009	2008
	HK$'000	HK$'000
Due from subsidiaries	**221,085**	257,511
Deposits and other receivables	**43**	439
Pledged time deposits	**26,121**	25,000
Cash and cash equivalents	**16,807**	3,473
	264,056	286,423

FINANCIAL LIABILITIES – FINANCIAL LIABILITIES AT AMORTISED COST

	Company	
	2009	2008
	HK$'000	HK$'000
Other payables	**1,973**	230
Interest-bearing bank borrowings	**–**	53,863
	1,973	54,093

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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 obligations with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings 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/(loss) before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/(loss) before tax HK$'000
2009		
Renminbi	**100**	**(2,122)**
Renminbi	**(100)**	**2,122**
2008		
Renminbi	100	(2,546)
Renminbi	(100)	2,546

As at the end of the reporting period, the Company had no significant interest bearing assets except for cash and cash equivalents. The Company did not have any interest bearing liabilities as at that date. Accordingly, the Company's income and operating cash flows are not substantially affected by changes in market interest rates.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK

As the Group's operating units are located in Mainland China, the Group's Statement of financial position 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 significant transactional currency exposure as substantially all of its sales and purchases are denominated in RMB, being 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.

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 end of the reporting period, the Group had certain concentrations of credit risk as 94% (2008: 96%) of the Group's trade receivables were due from the Group's five largest customers.

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.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2009				
	On demand HK$'000	Less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	–	94,715	230,852	628	326,195
Trade payables	–	369,870	–	–	369,870
Bills payable	–	138,279	–	–	138,279
Financial liabilities included in other payables and accruals	9,391	177,165	–	–	186,556
Due to an associate	7,413	–	–	–	7,413
	16,804	780,029	230,852	628	1,028,313

	2008				
	On demand HK$'000	Less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	–	277,236	218,792	842	496,870
Trade payables	16,473	143,721	–	–	160,194
Bills payable	–	88,158	–	–	88,158
Financial liabilities included in other payables and accruals	37,823	54,980	–	–	92,803
Due to an associate	6,951	–	–	–	6,951
	61,247	564,095	218,792	842	844,976

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK (CONTINUED)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company

	2009
	On demand
	HK$'000
Other payables	**1,973**

	2008		
	On demand	Less than 12 months	Total
	HK$'000	HK$'000	HK$'000
Interest-bearing bank borrowings	–	53,863	53,863
Other payables	230	–	230
	230	53,863	54,093

CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in 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 2009 and 2008.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CAPITAL MANAGEMENT (CONTINUED)

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 borrowings, trade payables, bills payable, other payables and accruals, an amount due to an associate, less cash and cash equivalents. Capital represents equity attributable to owners of the Company. The gearing ratios at the ends of the reporting periods were as follows:

Group

	2009	2008
	HK$'000	HK$'000
Interest-bearing bank borrowings	**292,004**	465,367
Trades payables	**369,870**	160,194
Bills payable	**138,279**	88,158
Other payables and accruals	**497,153**	183,320
Due to an associate	**7,413**	6,951
Less: Cash and cash equivalents	**(251,401)**	(124,915)
Net debt	**1,053,318**	779,075
Equity attributable to owners of the Company	**879,126**	641,099
Capital and net debt	**1,932,444**	1,420,174
Gearing ratio	**55%**	55%

42. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

Royalty expense of HK$32,405,000 which was previously classified as administrative expense was reclassified as cost of sales. In the opinion of the directors, such reclassification of the prior year comparative amounts provides better presentation as to the nature of the transaction and accords with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2010.