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 2010

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, capitalising on the development of wireless telecommunications technological know-how across multiple wireless telecommunications network standards including paging, GSM, CDMA1X, TD-SCDMA, CDMA2000 and WCDMA networks, the Company and its subsidiaries (collectively, the "Group") have developed a number of various proprietary technologies and patents in mobile operating systems, radio frequency, protocols and wireless data decomposed transmission technology. The Group has developed advanced research and development ("R&D") capabilities in mobile communications and gradually becomes a leader of high-end dual-mode smartphone and a leading 3G smartphone manufacturer in Mainland China.

In spite of being a leading 3G smartphone developer in Mainland China, the Group has successfully broken into the global telecommunications market in respect of its own Coolpad brand cooperated 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 market.

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 realise its clients' dream by providing customised products and services based on its own operating systems and customised application software.

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CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Coolpad Information Harbor
NO.2 Mengxi Road
Hi-Tech Industry Park (North)
Nanshan District
Shenzhen

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1902
Mass Mutual Tower
38 Gloucester Road
Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. LI Wang
Mr. JIANG Chao

COMPANY SECRETARY

Mr. JIANG Chao *ACCA*

AUDIT COMMITTEE & REMUNERATION COMMITTEE

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

CONTACT INFORMATION FOR INVESTOR RELATIONS

Tel: +86 755 3302 3607
Email: ir@yulong.com

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

WEBSITE ADDRESS

www.chinawireless.cn

STOCK CODE

2369

無論何時，豐富生活色彩

ANYTIME RICH IN SPECTACULAR

FINANCIAL HIGHLIGHTS

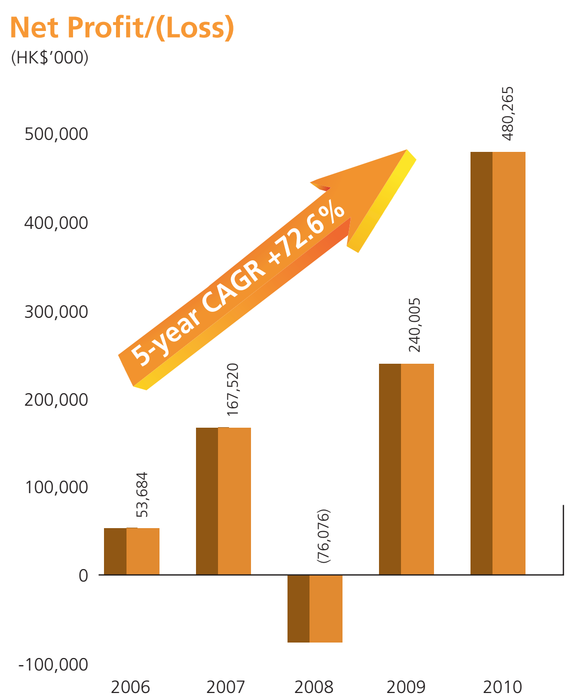
The financial data below are extracted from the Group's audited financial statements audited by Ernst & Young and prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

RESULTS

	Year ended 31 December (HK$'000)				
	2010	2009	2008	2007	2006
Revenue	**4,592,699**	2,604,865	1,007,135	1,277,663	640,855
Profit/(loss) before tax	**545,101**	263,579	(64,307)	167,520	53,684
Income tax expense	**(64,836)**	(23,574)	(11,769)	–	–
Profit/(loss) for the year	**480,265**	240,005	(76,076)	167,520	53,684

FINANCIAL POSITION

	As at 31 December (HK$'000)				
	2010	2009	2008	2007	2006
Non-current assets	**951,550**	831,430	722,360	432,000	168,586
Current assets	**3,301,409**	1,418,416	862,915	812,149	854,087
Non-current liabilities	**180,318**	245,096	225,480	91,083	102,939
Current liabilities	**2,652,149**	1,125,624	718,696	491,716	488,070
Net assets	**1,420,492**	879,126	641,099	661,350	431,664



* CAGR: Compound Annual Growth Rate

Revenue & Net Profit/(Loss)

CHAIRMAN'S STATEMENT

Guo Deying
Chairman, Executive Director and CEO

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 2010.

2010 was another year of exceptional growth for the Group. The Group maintained a strong and steady growth momentum and delivered a record-setting performance during the year under review. The Group earned record consolidated revenue and operating profit after tax of HK$4,592.7 million and HK$480.3 million, representing a growth of 76.3% and 100.1%, as compared with that of 2009, respectively. The Group delivered a total of 5,040,000 units of Coolpad smartphone for the year ended 31 December 2010, representing an increase of 2,870,000 units, or 132.3%, as compared with that of the year 2009. Basic and diluted earnings per ordinary share of the Company reached HK22.98 cents and HK22.22 cents for the year ended 31 December 2010, respectively. The Directors proposed a final dividend of HK5.0 cents per ordinary share. Together with the interim dividend of HK1.0 cent per ordinary share paid in September 2010, the total dividend for the full year is HK6.0 cents per ordinary share. This is 50% more than the total dividend of HK4.0 cents per ordinary share for the year ended 31 December 2009.

The Group has maintained a strong financial position and results. As of 31 December 2010, the Group held cash and cash equivalents of approximately HK$641.9 million. Following a completion of top-up placing of new shares of the Company in January 2011, the Group further optimised and diversified its shareholder base and strengthened financial flexibility to support its future business growth.

The Group delivered a gross profit margin of 24.3% in 2010, down 3.1 percentage points as compared with 27.4% in 2009. The erosion of gross profit margin in 2010 was mainly attributable to its declined average selling price ("ASP") as a result of the shift of the Group's product mix. During

CHAIRMAN'S STATEMENT

the year under review, the Group enhanced to promote mid and low-end 3G Coolpad smartphone while steadily expanding and optimising its product portfolio in order to strengthen its market share and to build a sustainable business for the long term. Moreover, the Group expects its gross profit margin continues to be squeezed following the declining ASP in the year ahead.

The record-setting performance of the Group has been built on our success in grasping the opportunity presented by the vibrant growth of Mainland China's 3G mobile phone market in 2010. The Group quickly responded to the domestic telecommunications operators' requirement for customised 3G mobile phones and successfully rolled out a record number of new 3G Coolpad smartphone during the year under review. The Group introduced about 20 models (2009: 10) of dual-mode 3G Coolpad smartphone ranged from high-end to low-end models which tremendously strengthened the Group's product portfolio. As such, 3G Coolpad smartphone business contributed more than 80% of the Group's consolidated revenue during the year under review. So far, the Group established a strong product portfolio covering 3 types of 3G networks with pricing ranged from RMB500 to RMB6,000.

The Group further consolidated its market position and continuously led the domestic 3G mobile phone market. Its Coolpad brand has been widely known as China's leading 3G brand by its consumers and business partners in Mainland China. According to an independent third-party market research, the Group's market share in terms of sales volume of 3G mobile phones in 2010 maintained in the top 3 among the peers in the PRC.

The Group continued to put great priority over the enhancement of R&D capabilities and the innovation on product and service. The Group further developed its standardised mobile software and hardware platform through close cooperation with the leading industry suppliers so as to introduce more feature-rich, user-friendly Coolpad product and service. The Group successfully launched Android-embedded Coolpad smartphone "Coolpad N930" which was announced in November 2010 and considered as another flagship product in the domestic 3G mobile phone market. The new product line based on Android mobile operating system has become the Group's new resource for revenue.

The Group strengthened the depth of cooperation with domestic telecommunications operators in the field of R&D on next generation network technologies (such as TD-LTE of 4G technology), mobile payment and other technologies related to cloud computing and storage, despite in the field of marketing and distribution. Particularly, the Group initially presented a 4G Coolpad smartphone based on TD-LTE technology in the close ceremony of Shanghai World Expo in October 2010.

Coolpad N930 Smartphone

Coolpad N900s smartphone

CHAIRMAN'S STATEMENT

The Group expanded its direct and indirect social distribution channels besides the focus on the telecommunications operators' resale market during the year under review. As of 31 December 2010, the Group had more than 100 distributors and agents at home and abroad, and established tens of Coolpad direct shops and outlets in some municipal cities in Mainland China. The Group initiated a variety of brand promotion campaigns in a number of media channels to promote its brand recognition during the year 2010.

The Group continued to reorganise its internal management structure and function, and optimised its operating and manufacturing processes through building internal information technology systems to quickly respond to market demand and customer needs. Especially, the Group employed several outstanding external consultant firms to help optimise the internal organisational processes so as to enhance its internal control during the year under review. Now these sound internal management systems and processes have significantly improved the Group's operating efficiency.

The Group completed its first phase factory construction with a production capacity of 10 million units per year in Dongguan city in January 2010. The new production infrastructure further improved the equipment for product testing and assembly of the Group which assured product quality and production cost controls.

Looking forward, there are full of challenges with opportunities in the domestic 3G mobile phone market for the Group. The Group will face more competition and challenges from a significant number of competitors who have broader product lines, lower cost structure, larger customer bases, and significant technical, marketing, distribution and other resources. The Group will face more pressure of continuous erosion of gross margin and declining ASP since the Group is trying to expand its product focus to mid and low-end mass market. The Group will continue to face severe uncertainty regarding revenue and sales volume impacted by unexpected changes of telecommunications operators' 3G subscriber promotion strategies and policies in 2011. However, the Group strongly believes, if we firmly persist in the enhancement of R&D capabilities, product and service innovation, marketing and distributions strengthening, the improvement of administrative efficiency, we will grip the opportunities presented by the emerging deployment of 3G subscribers and the increasing trend of smartphone penetration in Mainland China and continue our success in the coming year and beyond.

Last but not least, I take the pleasure in thanking our management team and thousands of staff of the Group for their hard work, dedication and proficiency, as any success we achieve comes as a result of their ability and their effort. I also would like to thank our shareholders, business partners and customers for their long-standing loyalty and support.

GUO Deying
Chairman

Hong Kong, 22 March 2011

Coolpad 8910 Smartphone

Coolpad S116 Smartphone

MANAGEMENT DISCUSSION AND ANALYSIS

創新未來，成就今天

INNOVATION IN THE FUTURE TODAY'S SUCCESS

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Total Revenue HK$4,592.7 Million

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

	Year ended 31 December HK$ million		
	2010	2009	Variance (%)
Revenue			
3G Coolpad smartphone	**4,036.8**	1,526.5	164.4
2G Coolpad smartphone	**522.1**	1,062.2	(50.8)
Other products	**33.8**	16.2	108.6
Total revenue	**4,592.7**	2,604.9	76.3
Cost of sales	**(3,475.3)**	(1,890.2)	83.9
Gross profit	**1,117.4**	714.7	56.3
Other income and gains	**217.0**	77.4	180.4
Selling and distribution costs	**(322.7)**	(244.4)	32.0
Administrative expenses	**(443.4)**	(265.7)	66.9
Other expenses	**(14.0)**	(4.2)	233.3
Finance costs	**(9.2)**	(14.2)	(35.2)
Profit before tax	**545.1**	263.6	106.8
Income tax expense	**(64.8)**	(23.6)	174.6
Profit for the year	**480.3**	240.0	100.1

▲ Shenzhen coolpad Information Harbor

REVENUE ANALYZED BY PRODUCT TYPES

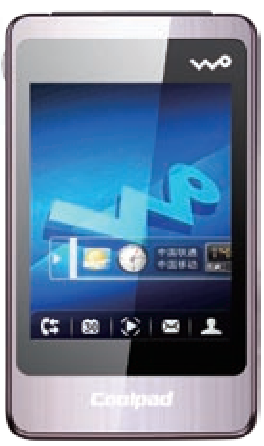
A comparative breakdown of the consolidated revenue streams into the product types are set forth in the following table for the periods indicated:

	Year ended 31 December			
	2010		2009	
	Revenue	**% of**	Revenue	% of
	HK$ million	**revenue**	*HK$ million*	revenue
3G Coolpad smartphone	**4,036.8**	**87.9**	1,526.5	58.6
2G Coolpad smartphone	**522.1**	**11.4**	1,062.2	40.8
Other products	**33.8**	**0.7**	16.2	0.6
Total	**4,592.7**	**100**	2,604.9	100

	Year ended 31 December	
	2010	2009
Number of Coolpad smartphone sold (Units)	**5,040,000**	2,170,000
Average selling price (“ASP”) (HK$)	**911**	1,200

The Group recorded consolidated revenue for the year ended 31 December 2010 of HK$4,592.7 million, representing a growth of 76.3% as compared with HK$2,604.9 million for the year ended 31 December 2009. The substantial growth of the consolidated revenue in 2010 was mainly driven by the strong increase in the sales of the Group’s 3G Coolpad smartphone as a result of the continued vibrant development of 3G mobile phone market in Mainland China during the year under review.

The revenue from the sales of 3G Coolpad smartphone increased by 164.4% to HK$4,036.8 million for the year ended 31 December 2010 as compared with HK$1,526.5 million for year ended 31 December 2009. The significant increase in revenue from the sales of 3G Coolpad smartphone was primarily because the Group shifted its focus on 3G mobile phone market and successfully tailored a series of 3G Coolpad smartphone for the three domestic telecommunications operators. Revenue contribution from this product type surged to 87.9% in 2010 from 58.6% in 2009. This demonstrated that the Group’s product portfolio shifted to 3G smartphone



◄ Coolpad W711 Smartphone ►

Coolpad W711 Smartphone

▼ Coolpad D550 Smartphone

type during the year under review. So far, the Group's Coolpad smartphone has covered all range of 3G networks, including TD-SCDMA, CDMA2000 as well as WCDMA networks.

The revenue from the sales of 2G Coolpad smartphone decreased by HK$540.1 million to HK$522.1 million for the year ended 31 December 2010 as compared with HK$1,062.2 million for the year ended 31 December 2009. Revenue contribution from this product type dropped to 11.4% in 2010 from 40.8% in 2009, due primarily to the dramatic decline in the sales of 2G Coolpad smartphone during the year under review.

The revenue from other products increased by HK$17.6 million, or 108.6%, to HK$33.8 million for the year ended 31 December 2010 as compared with HK$16.2 million for the year ended 31 December 2009. The increase in the revenue from other products during the year under review was mainly attributable to the increase in the sales of Coolpad smartphone's accessories and others.

The Group's sales volume of Coolpad smartphone for the year ended 31 December 2010 was about 5,040,000 units, representing an increase of 132.3% as compared with 2,170,000 units for the year ended 31 December 2009. The increase in sales volume demonstrated that the Group gained success in its mass-market product strategy to extend its product mix to the mid and low-end mobile phone market during the year under review, which resulted in the reduction of the Group's overall ASP to HK$911 for the year ended 31 December 2010 from HK$1,200 for the year ended 31 December 2009.

GROSS PROFIT

	Year ended 31 December			
	2010		2009	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK$ million	*(%)*	*HK$ million*	*(%)*
3G Coolpad smartphone	**1,035.0**	**25.6**	501.2	32.8
2G Coolpad smartphone	**65.2**	**12.5**	214.2	20.2
Other products	**17.2**	**50.9**	(0.7)	N/A
Total	**1,117.4**	**24.3**	714.7	27.4

The Group's overall gross profit for the year ended 31 December 2010 grew to HK$1,117.4 million, representing an increase of 56.3% as compared with HK$714.7 million for the year ended 31 December 2009. The Group's overall gross profit margin for the year ended 31 December 2010 was 24.3%, down 3.1 percentage points as compared with 27.4% for the year ended 31 December 2009. The significant decline in gross profit margin was primarily attributable to the decrease in the overall ASP as a result of the shift of the Group's product mix from high-end mobile phone market to mass market where the Group faced severe competition and tightly compressed selling price.

The gross profit margin relating to 3G Coolpad smartphone and 2G Coolpad smartphone decreased by 7.2 and 7.7 percentage points respectively as compared with that of the year ended 31 December 2009. The decrease in the gross profit margin relating to 3G and 2G Coolpad smartphone was primarily attributable to the shift of the Group's product mix into mid and low-end products.

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to HK$217.0 million for the year ended 31 December 2010, representing an increase of 180.4% as compared with HK$77.4 million for the year ended 31 December 2009. This significant increase was mainly attributable to the increase in the value-added tax refund income, and government's subsidies in 2010.

SELLING AND DISTRIBUTION COSTS

	Year ended 31 December	
	2010	2009
Selling and distribution costs (HK$ million)	**322.7**	244.4
Selling and distribution costs/Revenue (%)	**7.0**	9.4

Selling and distribution costs of the Group for the year ended 31 December 2010 increased to HK$322.7 million, representing an increase of HK$78.3 million, or 32.0%, as compared with HK$244.4 million for the year ended 31 December 2009. The net increase of HK$78.3 million was primarily generated from increased expenditures for marketing, advertising and promotion expenses, and increased salaries of new employed salesmen to support new product launches. As a percentage of total revenue, selling and distribution costs significantly decreased to 7.0% in 2010 from 9.4% in 2009. The net decrease of 2.4 percentage points proved that the Group has effectively expanded its marketing initiatives and benefited from the launch of the economies of scale as sales volume increased.

ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2010	2009
Administrative expenses (HK$ million)	**443.4**	265.7
Administrative expenses/Revenue (%)	**9.7**	10.2

Administrative expenses increased by 66.9% to HK$443.4 million for the year ended 31 December 2010 from HK$265.7 million for the year ended 31 December 2009. The net increase of HK$177.7 million was primarily generated from increased expenditures on R&D, and increased salaries of newly recruited management and administrative personel during the year under review. As a percentage of total revenue, it maintained flat during the year under review as compared with that in the year of 2009.

INCOME TAX EXPENSE

For the year ended 31 December 2010, the Group's income tax expense amounted to HK$64.8 million (2009: HK$23.6 million). The increase in income tax expense during the year under review was mainly attributable to the growth of the Group's profit before tax.

NET PROFIT

For the year ended 31 December 2010, the Group recorded a net profit of HK$480.3 million, representing an increase of HK$240.3 million, or 100.1%, as compared with HK$240.0 million for the year ended 31 December 2009. The reasons for the significant increase in the current year net profit was because the Group recorded a substantial revenue growth.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2010, 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 2010 amounted to HK$641.9 million (2009: HK$251.4 million).

GEARING RATIO AND THE BASIS OF CALCULATION

The Group's gearing ratio for 2010 was 59%, up 4 percentage points, as compared with 55% for the year 2009. The gearing ratio represented net debt divided by capital plus net debit.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2010, certain of the Group's assets were pledged to secure the Group's bank loans, bills payable and for issuance of letters of credit.

BUSINESS REVIEW OF THE GROUP IN 2010

2010 was another year of exceptional growth for the Group. The Group continued to maintain an unprecedented growth momentum riding on the vibrant 3G mobile phone market in Mainland China during the year under review. The Group achieved record high operating results in terms of revenue, net operating profit and sales volume in 2010, respectively. The Group further consolidated its market share and Coolpad brand commitment in the domestic 3G mobile phone market. Particularly, the Group successfully broke into WCDMA mobile phone market since the roll-out of Coolpad W700 smartphone in January 2010, which was featured as the first WCDMA/GSM dual-mode dual-working smartphone worldwide. The Group has become one of the few 3G mobile phone vendors who are able to offer any mode of 3G mobile phones worldwide.

The Group continued to focus on product and service innovation by committing to the enhancement of R&D capabilities. The Group developed a new smartphone platform based on Android mobile operating system, and successfully rolled out a flagship product of "Coolpad N930" which was featured with a completely new Coolpad's UI and ID and customised for its telecommunications operator in November 2010. The Group also further improved its "Coolmart" mobile application store to be compatible with more third-party independent Android-embedded software service and applications and diversified its contents for improving its mobile user experience.

Through leveraging its strong R&D and product design capabilities in the domestic 3G mobile phone market, the Group rolled out more new 3G Coolpad smartphone in 2010 than ever before, which covered from high-end to low-end models. Specifically, the Group introduced two WCDMA/GSM dual-mode smartphone, six TD-SCDMA(HSDPA)/GSM dual-mode smartphone and more than ten CDMA1X(EVDO)/GSM dual-mode smartphone, and several low-end CDMA1X single-mode mobile phones. These new products significantly contributed to the strong growth in the Group's revenue and market share during the year under review.

The Group continued to improve its brand recognition and expand its marketing and distribution channels. The Group launched a series of brand campaigns for promoting "LIVE SMART" brand version in some public media, and raised a positive and healthy corporate image in the domestic 3G mobile phone market. In addition to the development of strong partnerships with domestic telecommunications operators, the Group expanded its market reach and presence through establishing a number of social distribution channels. The Group established long-term and tight relationships with over 100 new distribution partners at home and abroad in 2010.

The Group continued to improve its general operating efficiency. The Group took a series of measures to improve its internal operating process and administrative efficiency in 2010. Upon the completion of construction of Songshan Lake production base in January 2010, the Group further improved its infrastructure for product testing and assembly which assured product quality and production cost controls.

PROSPECTS OF THE GROUP FOR 2011

As a leading 3G mobile phone manufacturer in Mainland China, the Group is well positioned to take advantage of the rapid growth of the domestic 3G subscriber deployment in the coming years and beyond.

To ensure long-term sustainable growth, the Group will continue to focus on R&D enhancement and continuous innovations on product and service. The Group will continue to develop and optimise its mobile software and hardware development platform through close cooperation with the leading industry suppliers so as to introduce more feature-rich, user-friendly Coolpad products and service. Particularly, the Group will mainly focus the technological innovation on user-interface and interaction so as to improve consumer's mobile experience and loyalty. The Group will continue to do more advanced research on next generation network technologies, such as 4G technology of TD-LTE, mobile payment and other technologies regarding cloud computing and storage to maintain its competitive advantage in the advanced R&D capabilities.

The Group will make an effort to strengthen its product portfolio and keep up its differentiated product positioning. The Group plans to introduce a series of Android-embedded Coolpad smartphone that ranges from high-end premium to low-end entry-level models to the domestic telecommunications operators. The Group will strengthen its leading position in the high-end dual-mode mobile phone market through rolling out more dual-mode dual-working 3G Coolpad smartphone based on TD-SCDMA, CDMA2000 and WCDMA technologies. Driven by the convergence of voice, video and data technologies, the Group will develop a series of wireless data access devices and tablets product to meet the domestic 3G subscribers' demand. The Group will try to introduce more good-price-performance and entry-level 3G phones to the mass market to expand market share and build good brand profile in Mainland China.

The Group will endeavor to expand its customer base by developing and strengthening the relationships with the domestic telecommunications operators and other social distribution partners. As a long-term development strategy, the Group will continue to extend its reach to overseas market through exploring more cooperation with foreign telecommunications operators.

The Group will put strong emphasis on the enhancement of general operation efficiency. The Group will continue to optimise the operating and manufacturing process with modern information technology systems so as to manage the manufacturing costs. Also the Group is committing to establishing outstanding corporate governance and enhancing corporate transparency.

Looking forward, there are full of challenges with the opportunities ahead for the Group. The Group will face more competition and challenges from a significant number of competitors who have broader product lines, lower cost structure, larger customer bases, and significant technical, marketing, distribution and other resources since the Group entered the mass market in Mainland China. The Group will face great pressure of continuous decline of gross profit margin generated by the change in product mix to mid and low-end mobile phone market. The Group will also continue to face severe uncertainty regarding revenue and sales volume impacted by unexpected changes in telecommunications operators' 3G subscriber promotion strategies and policies in the coming year and beyond. Nevertheless, the Group strongly believes that it is well positioned to lead the domestic 3G mobile phone market and gain enormous success achieved by the continuous R&D investments and technology innovation, differentiated product positioning, and all employees' hard work.

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2010, 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

As at 31 December 2010, the Group's total employees was approximately 3,900 (2009: 2,500). The Group's staff costs amounted to approximately HK$414.1 million for the year ended 31 December 2010 (2009: HK$246.0 million). The remuneration of the Group's employees was commensurate 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 2010, 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 Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders.

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 2010, 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 check-and-balance mechanism. The Board has delegated certain responsibilities to the Management, including implementation of decisions of the Board and organisation and direction of the day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board; preparation and monitoring of annual business plans and operating budget; and control, supervision and monitoring of capital, technical and human resources. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

BOARD COMPOSITION

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

EXECUTIVE DIRECTORS

Mr. GUO Deying *(Chairman of the Board and CEO)*
Mr. JIANG Chao
Mr. LI Bin
Mr. LI Wang

NON-EXECUTIVE DIRECTOR

Ms. YANG Xiao

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 23 to 25 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.

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.

In accordance with article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

BOARD OPERATION

During the year ended 31 December 2010, the Board held five meetings. Attendance of individual Director at the Board meetings in 2010 is as follows:

Name	Number of meetings attended
Executive Directors	
Mr. GUO Deying	5/5
Mr. JIANG Chao	5/5
Mr. LI Wang	5/5
Mr. LI Bin	5/5
Non-executive Director	
Ms. YANG Xiao	5/5
Independent Non-executive Directors	
Mr. CHAN King Chung	5/5
Dr. HUANG Dazhan	4/5
Mr. YANG Xianzu	5/5
Mr. XIE Weixin	5/5

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 one meeting in 2010 which were attended by all the members of the Remuneration Committee, which was consulted by Mr. Guo Deying, the chairman of the Company, to review the remuneration packages of Directors and senior management of the Group and share option scheme.

No Director 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 Director with a comprehensive induction program on the first occasion of his appointment, in which the Director will be provided with information on the Company's organisation and business, including the membership, duties and responsibilities of the Board, the various Board committees and the Management; corporate governance practices and procedures; and the latest financial information of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key members of the Management.

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

In 2010, the Audit Committee held three meetings. The attendance record of each member of the Audit Committee is set out below:

Name	Number of meetings attended
Mr. CHAN King Chung *(Chairman)*	3/3
Dr. HUANG Dazhan	3/3
Mr. YANG Xianzu	3/3
Mr. XIE Weixin	3/3

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

ACCOUNTABILITY AND INTERNAL CONTROL

The Board has overall responsibility for maintaining a proper and effective system of internal control of the Group and the preparation of the consolidated financial statements. 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 believes that, such system is sufficient in providing reasonable assurances that the Group's assets are safeguarded against loss from unauthorised use or disposition, transactions are properly authorised and proper accounting records are maintained. Such system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational system.

NOMINATION OF DIRECTORS

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

EXTERNAL AUDITORS

Ernst & Young has been appointed as the External Auditors of the Company for the year under review. An amount of approximately HK$2.9 million (2009: HK$2.6 million) and HK$0.5 million (2009: Nil) was charged by Ernst & Young for its audit and non-audit services provided to the Group in 2010. The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditor's Report" on page 37 of this report. The non-audit services mainly consist of taxation and advisory services.

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 46, 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 18 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. 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. Guo is the spouse of Ms. Yang Xiao, a non-executive Director.

Mr. JIANG Chao

Mr. JIANG Chao, aged 40, is an executive Director, the chief financial officer, vice president of the Group, and the 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 18 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 (the shares of which are listed on the NASDAQ Stock Exchange, stock symbol: XING) and ZTE Corporation Limited (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763), where he was responsible for financial and accounting functions. Mr. Jiang currently is the independent non-executive director of Ming Fung Jewellery Group Limited (the shares of which are listed on the Stock Exchange, Stock Code: 860). Mr. Jiang obtained a bachelor's degree in economics from Sun Yat-Sen University in 1991.

Mr. LI Bin

Mr. LI Bin, aged 40, is an executive director of the Company. Mr. Li is also a deputy general manager of the Group and responsible for the Group's research and development of software and testing. Mr. Li has more than 12 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). Mr. Li obtained a bachelor's degree in computer science and software engineering from Huazhong University of Science and Technology in 1992.

Mr. LI Wang

Mr. LI Wang, aged 38, is an executive director of the Company. He is also a deputy general manager of the Group and responsible for the Group's sales and marketing functions. 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. Mr. Li obtained a master's degree in business administration from Dalian university of Technology in 1997.

NON-EXECUTIVE DIRECTORS

Ms. YANG Xiao

Ms. YANG Xiao, aged 42, is a non-executive Director. Ms. Yang joined the Group in August 2001. She graduated with a diploma from Shenzhen University. During 1992 to 1995, Ms. Yang worked in Shenzhen Transport Bureau. Ms. Yang is the spouse of Mr. Guo. Ms. Yang does not hold any management position in the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Chung

Mr. CHAN King Chung, aged 48, 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. 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. Mr. Chan has about 20 years of experience in corporate governance, management and financial controlling, Mr. Chan is currently the company secretary and qualified accountant of HyComm Wireless Limited (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 499).

Dr. HUANG Dazhan

Dr. HUANG Dazhan, aged 53, 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 currently serves at China Merchants Group.

Mr. XIE Weixin

Mr. XIE Weixin, aged 69, 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 was a visiting scholar in University of Pennsylvania during the period from 1981 to 1983 and from 1989 to 1990, respectively. He was honored as one of the national outstanding middle-aged and young experts. Mr. Xie currently is the chairman of the Academic Committee of Shenzhen University, a professor in College of Information Engineering of Shenzhen University, and an independent non-executive director of Shenzhen Sed Industry Co. Limited (the shares of which are listed on the Shenzhen Stock Exchange, Stock Code:000032).

Mr. YANG Xianzu

Mr. YANG Xianzu, aged 71, 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, Stock code: 762) from 2000 to 2003. He is currently an independent non-executive director of Dongfeng Motor Group Company Limited (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 489), CITIC Telecom International Holdings Limited (the shares of which are listed on the main Board of the Stock Exchange, Stock code: 1883) and Net 263 Limited (the shares of which are listed on the Shenzhen Stock Exchange, Stock code: 002467). Mr. Yang has over 38 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 48, 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 in 1985.

Mr. ZHANG Hanwu

Mr. ZHANG Hanwu, aged 48, is a deputy general manager of the Group and is responsible for the human resources and administration functions. Mr. Zhang has 21 years of specialised 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 47, is Chief Information Official as well as Representative Corporate Management of the Group, responsible for the internal processes optimisation, IT and tendering business. Mr. Pan has 22 years of specialised experience in enterprise information technology and process optimisation 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 (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763) from 1999 to 2007. He obtained a bachelor degree and a master degree in Beijing University of Aeronautics and Astronautics consecutively.

REPORT OF THE DIRECTORS

The Directors of the Company present their report and the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 118.

An interim dividend of HK1 cent per ordinary share was paid on 15 September 2010. The Directors recommend the payment of a final dividend of HK5 cents per ordinary share for the year 2010 to shareholders as shown on the register of members on 26 May 2011. 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 OF 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				
	2010*	2009*	2008*	2007*	2006*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**4,592,699**	2,604,865	1,007,135	1,277,663	640,855
Profit/(loss) before tax	**545,101**	263,579	(64,307)	167,520	53,684
Income tax expense	**(64,836)**	(23,574)	(11,769)	–	–
Profit/(loss) for the year	**480,265**	240,005	(76,076)	167,520	53,684
Profit/(loss) attributable to equity holders of the Company	**480,265**	240,005	(76,076)	167,520	53,684

	As at 31 December				
	2010*	2009*	2008*	2007*	2006*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**951,550**	831,430	722,360	432,000	168,586
Current assets	**3,301,409**	1,418,416	862,915	812,149	854,087
Non-current liabilities	**180,318**	245,096	225,480	91,083	102,939
Current liabilities	**2,652,149**	1,125,624	718,696	491,716	488,070
Net assets	**1,420,492**	879,126	641,099	661,350	431,664

* extracted from the published audited financial statements

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The principal rental properties of the Group are as follows:

Location	Group interest	Tenure	Use	Gross floor area
High Tech Plaza, Tian An Cyberpark, Chegongmiao, Futian District, Shenzhen, Guangdong Province, the PRC	100%	The property is held for a term of 50 years commencing on 16 November 1988	Office	3,802.01 sq.m.
Coolpad Information Harbor, 2nd Mengxi Road, Hi-tech Industrial Park (North), Nanshan District, Shenzhen, Guangdong Province, the PRC	100%	The property is held for a term of 50 years commencing on 13 October 1999	Office	40,920.71 sq.m.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year under review are set out in notes 33 and 34 to the financial statements.

SHARE AWARD PLAN

Details of movement in the Company's shares held for the Share Award Plan during the year under review are set out in note 35 to the financial statements.

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 2.4 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 under review 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 under review are set out in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$273,156,000. The Board recommended a final dividend proposal of HK5 cents per ordinary share for the year 2010. The distributable reserves include the Company's share premium account, contributed surplus and retained profits, amounting to HK$160,439,000 as at 31 December 2010, 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 49.3% of the total sales for the year and sales to the largest customer included therein amounted to 18.4%. Purchases from the Group's five largest suppliers accounted for less than 30.0% of the total purchases for the year ended 31 December 2010.

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

DIRECTORS

The Directors during the year under review 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
Mr. LI Wang

NON-EXECUTIVE DIRECTOR

Ms. YANG Xiao

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. CHAN King Chung
Mr. YANG Xianzu

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

In accordance with Articles of Association, Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Yang Xianzu will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting (the "AGM") of the Company.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 23 and 25 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 commencing from 21 November 2008.

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 Director Ms. Yang Xiao has entered into a service agreement with the Company for a term of three years commencing from 21 November 2010.

The independent non-executive Director Mr. Yang Xianzu has entered into a service agreement with the Company for a term of one year commencing from 26 May 2010. The remaining independent non-executive Directors have entered into service agreements with the Company for a term of one year commencing from 21 November 2010.

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 under review.

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

As at 31 December 2010, 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, for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules (the "Model Code") 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	14,332,000	–	831,171,248	–	845,503,248	40.22
Mr. Jiang Chao	*3*	–	–	–	14,332,000	–	–	14,332,000	0.68
Mr. Li Bin	*4*	1,400,000	–	–	–	–	7,000,000	8,400,000	0.40
Mr. Li Wang	*4*	4,200,000	–	–	–	–	5,000,000	9,200,000	0.44
Ms. Yang Xiao	*1&2*	–	831,171,248	14,332,000	–	–	–	845,503,248	40.22
Mr. Chan King Chung	*4*	–	–	–	–	–	192,000	192,000	0.01
Mr.Huang Dazhan	*4*	–	–	–	–	–	144,000	144,000	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:

Name of director	*Note*	Name of associated corporation	Number of shares held, capacity and nature of interest: 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

REPORT OF THE DIRECTORS

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 Trust. The Barrie Bay Trust is a unit trust held by HSBC International Trustee Limited ("HSBC Trustee") acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo Deying ("Mr. Guo"), an executive Director, and his spouse, Ms. Yang Xiao ("Ms. Yang"), a non-executive Director, the beneficiary objects of which include the minor children of Mr. Guo and Ms. Yang.

   Each of Mr. Guo and Ms. Yang is taken to be interested in the 831,171,248 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their minor children under the Barrie Bay Trust. The long positions in the Company's shares 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 Trust and by virtue of the interests of their minor children under the Barrie Bay 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 taken to be interested in the 14,332,000 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 Chao, an executive Director, was interested in the 14,332,000 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 2010, 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	Percentage of the Company's issued share capital
Data Dreamland Holding Limited ("Data Dreamland")	*1*	831,171,248	Beneficial owner	39.54
Barrie Bay Limited ("Barrie Bay")	*2*	831,171,248	Interest of controlled corporation	39.54
HSBC International Trustee Limited ("HSBC Trustee")	*2*	831,171,248	Trustee	39.54
Cheah Capital Management Limited	–	191,340,000	Interest of controlled corporation	9.10
Cheah Cheng Hye	–	191,340,000	Founder of a trust	9.10
Cheah Company Limited	–	191,340,000	Interest of controlled corporation	9.10
Hang Seng Bank Trustee International Limited	–	191,340,000	Trustee	9.10
To Hau Yin	–	191,340,000	Interest of a substantial shareholder's spouse	9.10
Value Partners Group Limited	–	191,340,000	Interest of controlled corporation	9.10
Value Partners Limited	–	191,340,000	Investment manager	9.10

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 Trust. The Barrie Bay Unit Trust is a unit trust held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Unit Trust. 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 2010, 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 34 to the financial statements.

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

	Number of share options								
Name or category of participant	At 1 January 2010	Grant during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Employees									
In aggregate – granted on 27 July 2006	16,968,000	–	16,776,000	192,000	–	–	27-07-06	27-07-06 to 26-07-10	0.4615
In aggregate – granted on 27 July 2006	3,316,000	–	2,632,000	–	–	684,000	27-07-06	27-07-07 to 26-07-11	0.4615
In aggregate – granted on 18 September 2007	15,736,000	–	5,560,000	–	–	10,176,000	18-09-07	18-09-08 to 17-09-12	1.415
In aggregate – granted on 18 September 2007	3,264,000	–	48,000	–	–	3,216,000	18-09-07	18-09-10 to 17-09-14	1.415
In aggregate – granted on 20 May 2008	12,464,000	–	2,308,000	–	–	10,156,000	20-05-08	20-05-09 to 19-05-13	0.674
In aggregate – granted on 20 May 2008	3,856,000	–	–	–	–	3,856,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 20 May 2008	11,928,000	–	–	–	–	11,928,000	20-05-08	20-05-11 to 19-05-15	0.674
In aggregate – granted on 20 May 2008	3,488,000	–	–	–	–	3,488,000	20-05-08	20-05-14 to 19-05-18	0.674
In aggregate – granted on 27 February 2009	5,568,000	–	1,176,000	–	–	4,392,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 February 2009	13,916,000	–	5,452,000	–	–	8,464,000	27-02-09	27-02-10 to 26-02-12	0.397
In aggregate – granted on 27 February 2009	4,128,000	–	3,276,000	–	–	852,000	27-02-09	27-02-10 to 26-02-11	0.397
In aggregate – granted on 27 February 2009	800,000	–	–	–	–	800,000	27-02-09	27-02-13 to 26-02-17	0.397
In aggregate – granted on 30 June 2010	–	16,904,000	–	–	–	16,904,000	28-06-10	28-06-11 to 27-06-15	3.24
In aggregate – granted on 30 June 2010	–	19,704,000	–	–	–	19,704,000	28-06-10	28-06-12 to 27-06-16	3.24
In aggregate – granted on 30 June 2010	–	15,772,000	–	–	–	15,772,000	28-06-10	28-06-13 to 27-06-17	3.24
In aggregate – granted on 30 June 2010	–	9,500,000	–	–	–	9,500,000	28-06-10	28-06-14 to 27-06-18	3.24
Directors									
In aggregate – granted on 27 July 2006	6,000,000	–	6,000,000	–	–	–	27-07-06	27-07-06 to 26-07-10	0.4615
In aggregate – granted on 18 September 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 February 2009	768,000	–	48,000	–	–	720,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 February 2009	4,000,000	–	–	–	–	4,000,000	27-02-09	27-02-13 to 26-02-17	0.397
In aggregate – granted on 30 June 2010	–	4,000,000	–	–	–	4,000,000	28-06-10	28-06-14 to 27-06-18	3.24
Subtotal	110,200,000	65,880,000	43,276,000	192,000	–	132,612,000			
Business consultants	8,000,000	–	–	–	–	8,000,000	18-09-07	18-09-10 to 17-09-14	1.415
Total	118,200,000	65,880,000	43,276,000	192,000	–	140,612,000			

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$87,155,000 using the binomial option pricing model as at the date of grant of the options:

Grantee	**Number of share options granted during the year under review**	**Theoretical value of share options** (HK$)
Employees in aggregate	65,880,000	87,155,000

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 34 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 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 2010.

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 year ended 31 December 2010, 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 year ended 31 December 2010, the staff costs amounted to HK$414.1 million. The remuneration of the Group's employees was commensurate with their responsibilities and the market levels, with discretionary bonuses and training given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2010.

MATERIAL ACQUISITIONS AND DISPOSAL

There were no material acquisitions and disposal of the Company and its subsidiaries during the year under review.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant post Statement of financial position events of the Group are set out in note 43 to the financial statements.

AUDITORS

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

On behalf of the Board
China Wireless Technologies Limited

Guo Deying
Chairman, Executive Director and Chief Executive Officer

22 March 2011, Hong Kong

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of China Wireless Technologies Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 118 which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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

22 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**4,592,699**	2,604,865
Cost of sales		**(3,475,274)**	(1,890,149)
Gross profit		**1,117,425**	714,716
Other income and gains	5	**216,974**	77,384
Selling and distribution costs		**(322,691)**	(244,409)
Administrative expenses		**(443,444)**	(265,661)
Other expenses		**(13,823)**	(4,292)
Finance costs	7	**(9,245)**	(14,156)
Share of losses of associates		**(95)**	(3)
PROFIT BEFORE TAX	6	**545,101**	263,579
Income tax expense	10	**(64,836)**	(23,574)
PROFIT FOR THE YEAR		**480,265**	240,005
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		**18,631**	5,238
Income tax effect	32	**(3,670)**	(1,470)
		14,961	3,768
Exchange differences on translation of foreign operations		**36,398**	(750)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**51,359**	3,018
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**531,624**	243,023
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**22.98 cents**	11.74 cents
Diluted		**22.22 cents**	11.59 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**417,237**	292,548
Investment properties	*15*	**304,456**	285,254
Prepaid land lease payments	*16*	**67,321**	62,062
Intangible assets	*17*	**94,294**	113,083
Investments in associates	*19*	**196**	8,513
Other non-current assets	*23*	**46,607**	68,167
Deferred tax assets	*32*	**21,439**	1,803
Total non-current assets		**951,550**	831,430
CURRENT ASSETS			
Inventories	*20*	**835,178**	518,089
Trade receivables	*21*	**222,013**	294,378
Bills receivable	*22*	**697,238**	45,644
Prepayments, deposits and other receivables	*23*	**176,382**	121,616
Due from directors	*24*	**580**	551
Pledged time deposits	*25*	**728,123**	186,737
Cash and cash equivalents	*25*	**641,895**	251,401
Total current assets		**3,301,409**	1,418,416
CURRENT LIABILITIES			
Trade payables	*26*	**566,553**	369,870
Bills payable	*27*	**689,447**	138,279
Other payables and accruals	*28*	**725,755**	497,153
Derivative financial instruments	*29*	**10,696**	–
Interest-bearing bank borrowings	*30*	**606,541**	79,648
Due to an associate	*31*	**–**	7,413
Tax payable		**53,157**	33,261
Total current liabilities		**2,652,149**	1,125,624
NET CURRENT ASSETS		**649,260**	292,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,600,810**	1,124,222

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,600,810**	1,124,222
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*30*	**132,640**	212,356
Deferred tax liabilities	*32*	**42,625**	28,076
Long term rental deposits		**5,053**	4,664
Total non-current liabilities		**180,318**	245,096
Net assets		**1,420,492**	879,126
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*33*	**21,024**	20,591
Shares held for the Share Award Plan	*35*	**(321)**	(3,799)
Reserves		**1,283,187**	799,661
Proposed final dividends	*12*	**112,717**	62,673
		1,416,607	879,126
Non-controlling interests		**3,885**	–
Total equity		**1,420,492**	879,126

GUO Deying
Director

JIANG Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to owners of the Company										
	Notes	Issued capital HK$'000	Share premium account HK$'000	Shares held for the Share Award Plan HK$'000	Contributed surplus HK$'000	Revaluation reserve HK$'000	Statutory reserve HK$'000	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 2009		20,401	199,552	(2,835)	390	52,438	41,822	21,438	97,309	210,584	–	641,099
Profit for the year		–	–	–	–	–	–	–	–	240,005	–	240,005
Other comprehensive income for the year:												
Gains on property revaluation, net of tax		–	–	–	–	3,768	–	–	–	–	–	3,768
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(750)	–	–	(750)
Total comprehensive income for the year		–	–	–	–	3,768	–	–	(750)	240,005	–	243,023
Issue of shares	*33*	190	6,580	–	–	–	–	–	–	–	–	6,770
Transfer from share option reserve	*33*	–	2,264	–	–	–	–	(2,264)	–	–	–	–
Equity-settled share option arrangements		–	–	–	–	–	–	9,477	–	–	–	9,477
Shares purchased for the Share Award Plan		–	–	(964)	–	–	–	–	–	–	–	(964)
Interim 2009 dividend	*12*	–	–	–	–	–	–	–	–	(20,279)	–	(20,279)
Proposed final 2009 dividend	*12*	–	(55,882)	–	–	–	–	–	–	(6,791)	62,673	–
At 31 December 2009		20,591	152,514*	(3,799)	390*	56,206*	41,822*	28,651*	96,559*	423,519*	62,673	879,126

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to owners of the Company													
	Notes	Issued capital HK$'000	Share premium account HK$'000	Shares held for the Share Award Plan HK$'000	Contributed surplus HK$'000	Revaluation reserve HK$'000	Statutory reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010		20,591	152,514	(3,799)	390	56,206	41,822	28,651	–	96,559	423,519	62,673	879,126	–	879,126
Profit for the year		–	–	–	–	–	–	–	–	–	480,265	–	480,265	–	480,265
Other comprehensive income for the year:															
Gains on property revaluation, net of tax		–	–	–	–	14,961	–	–	–	–	–	–	14,961	–	14,961
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	36,398	–	–	36,398	–	36,398
Total comprehensive income for the year		–	–	–	–	14,961	–	–	–	36,398	480,265	–	531,624	–	531,624
Arising from the incorporation of a non-wholly-owned subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	3,885	3,885
Final 2009 dividend declared		–	–	–	–	–	–	–	–	–	–	(62,646)	(62,646)	–	(62,646)
Difference between the proposed final 2009 dividend with the actual dividend paid		–	–	–	–	–	–	–	–	–	27	(27)	–	–	–
Issue of shares	33	433	24,735	–	–	–	–	–	–	–	–	–	25,168	–	25,168
Transfer from share option reserve	33	–	10,257	–	–	–	–	(10,257)	–	–	–	–	–	–	–
Equity-settled share option arrangements		–	–	–	–	–	–	19,537	–	–	–	–	19,537	–	19,537
Shares awarded under the Share Award Plan	35	–	–	3,478	–	–	–	–	41,304	–	–	–	44,782	–	44,782
Interim 2010 dividend	12	–	–	–	–	–	–	–	–	–	(20,984)	–	(20,984)	–	(20,984)
Proposed final 2010 dividend	12	–	(112,717)	–	–	–	–	–	–	–	–	112,717	–	–	–
At 31 December 2010		21,024	74,789*	(321)	390*	71,167*	41,822*	37,931*	41,304*	132,957*	882,827*	112,717	1,416,607	3,885	1,420,492

* These reserve accounts comprise the consolidated reserves of HK$1,283,187,000 (2009: HK$799,661,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**545,101**	263,579
Adjustments for:			
Bank interest income	5	**(10,609)**	(3,683)
Finance costs	7	**9,245**	14,156
Share of losses of associates		**95**	3
Depreciation	6	**24,397**	19,122
Changes in fair value of investment properties	6	**(9,072)**	(3,496)
Amortisation of patents and licences	6	**9,690**	18,541
Amortisation of product development costs	6	**33,240**	13,602
Recognition of prepaid land lease payments	6	**1,485**	1,370
Loss on disposal of items of property, plant and equipment	6	**774**	535
Impairment of trade receivables	6	**909**	1,120
Provision for inventories	6	**15,591**	12,574
Equity-settled share award plan expense		**44,782**	–
Equity-settled share option expense		**19,537**	9,477
Change in fair value of derivative financial instruments	6	**10,696**	–
		695,861	346,900
Increase in inventories		**(349,184)**	(293,871)
(Increase)/decrease in trade receivables		**66,451**	(24,792)
Increase in bills receivable		**(652,757)**	(33,751)
(Increase)/decrease in prepayments, deposits and other receivables		**(57,781)**	29,758
Increase in amounts due from directors		**(41)**	(458)
(Increase)/decrease in other non-current assets		**269**	(933)
Increase in trade payables		**206,708**	208,926
Increase in bills payable		**561,527**	49,801
Increase in other payables and accruals		**233,576**	296,548
Increase/(decrease) in long term rental deposits		**488**	(155)
Cash generated from operations		**705,117**	577,973
Tax paid		**(54,093)**	(4,515)
Net cash flows from operating activities		**651,024**	573,458

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Net cash flows from operating activities		**651,024**	573,458
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received	5	**10,609**	3,683
Purchases of items of property, plant and equipment		**(64,979)**	(71,270)
Proceeds from disposal of items of property, plant and equipment		**1,793**	569
Additions to product development costs	17	**(16,408)**	(35,793)
Additions to patents and licences	17	**(4,998)**	(12,970)
Addition to prepaid land lease payments		**(22,519)**	–
Proceeds from disposal of an associate		**8,603**	–
Acquisition of an associate		**(294)**	–
Increase in pledged time deposits		**(524,419)**	(117,197)
Net cash flows used in investing activities		**(612,612)**	(232,978)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	33	**25,168**	6,770
New bank loans		**549,122**	701,269
Repayment of bank loans		**(105,728)**	(875,704)
Increase/(decrease) in an amount due to an associate		**(7,492)**	462
Interest paid	7	**(20,301)**	(25,536)
Purchase of shares held for the share award plan	35	**–**	(964)
Dividends paid		**(83,630)**	(20,279)
Net cash flows from/(used in) financing activities		**357,139**	(213,982)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**395,551**	126,498
Cash and cash equivalents at beginning of year		**251,401**	124,915
Effect of foreign exchange rate changes, net		**(5,057)**	(12)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**641,895**	251,401
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**641,895**	251,401

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**246**	339
Investments in subsidiaries	18	**82,106**	44,991
Intangible assets	17	**–**	389
Total non-current assets		**82,352**	45,719
CURRENT ASSETS			
Due from subsidiaries	18	**202,204**	221,085
Bills receivable	22	**486,100**	–
Deposits and other receivables	23	**1,747**	574
Pledged time deposits	25	**26,128**	26,121
Cash and cash equivalents	25	**68,382**	16,807
Total current assets		**784,561**	264,587
CURRENT LIABILITIES			
Trade payables		**667**	–
Other payables and accruals	28	**6,576**	4,296
Derivative financial instruments	29	**10,696**	–
Interest-bearing bank borrowings	30	**475,492**	–
Total current liabilities		**493,431**	4,296
NET CURRENT ASSETS		**291,130**	260,291
Net assets		**373,482**	306,010
EQUITY			
Issued capital	33	**21,024**	20,591
Shares held for the Share Award Plan	35	**(321)**	(3,799)
Reserves	36	**240,062**	226,545
Proposed final dividends	12	**112,717**	62,673
Total equity		**373,482**	306,010

GUO Deying
Director

JIANG Chao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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 smartphones.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings and derivative financial instruments, 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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendments to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

  Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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 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*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

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 investments in subsidiaries are stated at cost less any impairment losses.

ASSOCIATES

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 investments in associates are 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 associates 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 investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

RELATED PARTIES

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

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

(b) the party is an associate;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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 equipment	20%
Motor vehicles	20%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

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 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.

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 five years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS (CONTINUED)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 investments, 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.

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 by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of comprehensive income. The loss arising from impairment is recognised in the consolidated statement of comprehensive income in administrative expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 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, derivative financial instruments and interesting-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the 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 associates 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 associates, 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.

SHARE-BASED PAYMENT TRANSACTIONS

The Company operates a share option scheme (see note 34) and a share award plan (see note 35) 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. For grant of share options, the fair value is determined by an external valuer using a binomial model. For grant of award shares, the fair value is determined by the market price of the Company's shares at the grant date.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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.

OTHER EMPLOYEE BENEFITS

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the 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.

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 rates 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.

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.

Deferred tax liabilities

Deferred tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. If these undistributed earnings of subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred tax liability would have been increased by the same amount of approximately HK$89,659,000 (2009: HK$32,424,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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 2010, the best estimate of the carrying amount of provision for product warranties was HK$20,477,000 (2009: HK$13,363,000) (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 2010, the best estimate of the carrying amount of capitalised product development costs was HK$71,342,000 (2009: HK$ HK$86,140,000) (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 2010, the Group had inventories that were measured at net realisable value (where lower than cost) of HK$8,899,000 (2009: HK$17,453,000).

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 2010, impairment losses of HK$2,056,000 (2009: HK$1,087,000) have been recognised for trade receivables (note 21).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

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 2010 was HK$75,938,000 (2009: HK$142,156,000). Further details are contained in note 32 to the financial statements.

4. OPERATING 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, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, share of losses of associates as well as head office and corporate expenses are excluded from such measurement.

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment liabilities exclude derivative financial instruments, 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.

Year ended 31 December 2010

	Mobile phone HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	4,592,699	–	4,592,699
Other revenue	174,962	31,403	206,365
Total	4,767,661	31,403	4,799,064
Segment results	527,728	29,927	557,655
Reconciliation:			
Interest income			10,609
Corporate and other unallocated expenses			(13,823)
Finance costs			(9,245)
Share of loss of an associate			(95)
Profit before tax			545,101
Segment assets	2,545,333	315,973	2,861,306
Reconciliation:			
Investment in an associate			196
Other unallocated assets			1,391,457
Total assets			4,252,959
Segment liabilities	1,981,755	5,053	1,986,808
Reconciliation:			
Other unallocated liabilities			845,659
Total liabilities			2,832,467
Other segment information:			
Impairment of trade receivables	909	–	909
Provision for inventories	15,591	–	15,591
Fair value gains on investment properties	–	9,072	9,072
Product warranty provision	31,649	–	31,649
Depreciation and amortisation	68,559	253	68,812
Capital expenditure*	149,445	–	149,445

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

4. OPERATING 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	50,652	23,049	73,701
Total	2,655,517	23,049	2,678,566
Segment results	256,277	22,070	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:			
Investment 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. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	2010 HK$'000	2009 HK$'000
Mainland China	**4,512,870**	2,578,404
Overseas	**79,829**	26,461
	4,592,699	2,604,865

(b) *Non-current assets*

	2010 HK$'000	2009 HK$'000
Mainland China	**929,865**	828,899
Overseas	**246**	728
	930,111	829,627

INFORMATION ABOUT A MAJOR CUSTOMER

Revenue of approximately HK$844,624,000 (2009: HK$706,995,000) was derived from sales by the mobile phone segment to a single customer.

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 elimination of all intra-group transactions.

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

	2010 HK$'000	2009 HK$'000
Revenue		
Sale of mobile phones	**4,592,699**	2,604,865
Other income		
Bank interest income	**10,609**	3,683
Government grants and subsidies*	**144,578**	48,554
Gross rental income	**22,331**	19,553
Others	**30,384**	2,098
	207,902	73,888
Gains		
Fair value gains on investment properties	**9,072**	3,496
	216,974	77,384

* 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 BEFORE TAX

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**3,459,683**	1,877,575
Depreciation	*14*	**24,397**	19,122
Amortisation of patents and licences*	*17*	**9,690**	18,541
Amortisation of prepaid land lease payments	*16*	**1,485**	1,370
Research and development costs:			
Product development costs amortised*	*17*	**33,240**	13,602
Current year expenditure		**147,631**	71,142
		180,871	84,744
Operating lease rental		**11,042**	7,571
Auditors' remuneration		**2,915**	2,624
Staff costs (excluding directors' remuneration *(note 8)*):			
Salaries and wages		**281,250**	196,814
Staff welfare expenses		**26,629**	12,846
Pension scheme contributions		**30,943**	20,424
Equity-settled share option expense		**18,444**	8,750
Equity-settled share award plan expense		**19,462**	–
		376,728	238,834
Impairment of trade receivables	*21*	**909**	1,120
Provision for inventories		**15,591**	12,574
Product warranty provision	*28*	**31,649**	17,566
Loss on disposal of items of property, plant and equipment		**774**	535
Foreign exchange differences, net		**(10,560)**	1,564
Net rental income on investment properties		**(20,855)**	(18,574)
Changes in fair value of investment properties	*15*	**(9,072)**	(3,496)
Changes in fair value of derivative financial instruments		**10,696**	–

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

7. FINANCE COSTS

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on:		
Bank loans	**19,601**	23,173
Discounted bills receivable	**700**	2,363
	20,301	25,536
Less: Interest capitalised	**(11,056)**	(11,380)
	9,245	14,156

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	
	2010	2009
	HK$'000	HK$'000
Fees	**516**	413
Other emoluments:		
Salaries, allowances and benefits in kind	**9,861**	5,467
Performance related bonuses	**551**	567
Equity-settled share option expense	**1,093**	727
Equity-settled share award plan expense	**25,320**	–
Pension scheme contributions	**65**	32
	36,890	6,793
	37,406	7,206

8. DIRECTORS' REMUNERATION (CONTINUED)

During the year and in prior years, certain directors were granted 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 34 to the financial statements. During the year, certain directors were also awarded shares, in respect of their services to the Group, under the share award plan of the Company, further details of which are set out in note 35 to the financial statements. The fair value of these options and shares, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant/award and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(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
2010			
Dr. Huang Dazhan	**120**	**10**	**130**
Mr. Xie Weixin	**138**	**10**	**148**
Mr. Chan King Chung	**120**	**10**	**130**
Mr. Yang Xianzu	**138**	**10**	**148**
	516	**40**	**556**
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

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

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31 December 2010

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$'000	Equity-settled share award plan expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2010						
Executive directors:						
Mr. Guo Deying	3,912	–	–	–	13	3,925
Mr. Jiang Chao	2,066	–	–	14,520	13	16,599
Mr. Li Wang	1,377	–	443	6,480	13	8,313
Mr. Li Bin	1,404	551	610	4,320	13	6,898
	8,759	551	1,053	25,320	52	35,735
Non-executive director:						
Ms. Yang Xiao	1,102	–	–	–	13	1,115
	9,861	551	1,053	25,320	65	36,850

	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

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 included four directors (2009: five), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2009: Nil) non-director, highest paid employee for the year are as follows:

	HK$'000
Salaries, allowances and benefits in kind	207
Equity-settled share award plan expense	15,650
	15,857

During the year, shares were awarded to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of these shares, which has been recognised in the profit or loss over the vesting period, was determined as at the date of award and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's 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 (2009: 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.

	2010 **HK$'000**	2009 HK$'000
Group:		
Current – Mainland China	**74,063**	18,151
Deferred	**(9,227)**	5,423
Total tax charge for the year	**64,836**	23,574

10. INCOME TAX EXPENSE (CONTINUED)

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

	Group	
	2010	2009
	HK$'000	HK$'000
Profit before tax	**545,101**	263,579
Tax at the statutory tax rate of 25%	**136,275**	65,895
Lower tax rates for specific provinces or enacted by local authorities	**(81,350)**	(53,927)
Effect of increase in tax rates on deferred tax	**974**	405
Adjustments in respect of current tax of previous periods	**3,291**	(4,933)
Losses attributable to associates	**14**	1
Income not subject to tax	**(11,595)**	(3,078)
Expenses not deductible for tax	**33,717**	21,482
Additional deductible research and development expenses	**(10,734)**	–
Effect of withholding tax at 10% on the distributable profits of the Group's PRC Subsidiaries	**4,514**	3,695
Tax losses utilised from previous periods	**(10,270)**	(9,132)
Tax losses not recognised	**–**	3,166
Tax charge at the Group's effective rate	**64,836**	23,574
The Group's effective income tax rate	**11.9%**	8.9%

10. INCOME TAX EXPENSE (CONTINUED)

The Group's PRC Subsidiaries 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, was assessed as a software enterprise and was exempted from CIT for the two years ended 31 December 2006 and 2007 and was entitled to a 50% reduction in the applicable tax rate for CIT for the three years ended 31 December 2010. The applicable tax rate for Shenzhen Coolpad was 22% in 2010 as it is located in Shenzhen Special Economic Zone. In this connection, Shenzhen Coolpad was subject to CIT at a rate of 11% for the current year;

(b) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen"), the Company's wholly-owned subsidiary, was assessed as a high-technology enterprise and was subject to CIT at a rate of 15% for the year ended 31 December 2010; and

(c) Dongguan Yulong Telecommunications Scientific Co., Ltd. ("Dongguan Yulong"), the Company's wholly-owned subsidiary, is a foreign investment enterprise and is subject to CIT at a reduced rate of 12.5% for the three years ending 31 December 2012.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of HK$61,615,000 (2009: HK$31,307,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. DIVIDENDS

	2010 **HK$'000**	2009 HK$'000
Interim – HK1 cent (2009: HK1 cent) per ordinary share	**20,984**	20,279
Proposed final – HK5 cents (2009: HK3 cents) per ordinary share	**112,717**	62,673
	133,701	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 PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,089,801,111 (2009: 2,044,155,189) in issue during the year.

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

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

	2010 **HK$'000**	2009 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**480,265**	240,005

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,089,801,111**	2,044,155,189
Effect of dilution – weighted average number of ordinary shares: share options	**72,018,192**	26,430,746
	2,161,819,303	2,070,585,935

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010						
Cost or valuation:						
At 1 January 2010	115,354	4,015	75,047	9,358	133,926	337,700
Additions	1,039	2,713	29,743	1,327	88,492	123,314
Surplus on revaluation	10,527	–	–	–	–	10,527
Disposals	–	(3,255)	(3,149)	(935)	–	(7,339)
Transfers	177,461	–	–	–	(177,461)	–
Exchange realignment	4,009	62	2,533	285	4,654	11,543
At 31 December 2010	308,390	3,535	104,174	10,035	49,611	475,745
Accumulated depreciation:						
At 1 January 2010	4,360	2,128	34,052	4,612	–	45,152
Depreciation provided during the year	8,967	534	13,693	1,203	–	24,397
Write-back on revaluation	(8,104)	–	–	–	–	(8,104)
Disposals	–	(2,011)	(1,920)	(841)	–	(4,772)
Exchange realignment	172	39	1,464	160	–	1,835
At 31 December 2010	5,395	690	47,289	5,134	–	58,508
Net book value:						
At 31 December 2010	302,995	2,845	56,885	4,901	49,611	417,237
At 31 December 2009	110,994	1,887	40,995	4,746	133,926	292,548
Analysis of cost or valuation:						
At cost	2,874	3,535	104,174	10,035	49,611	170,229
At valuation	305,516	–	–	–	–	305,516
	308,390	3,535	104,174	10,035	49,611	475,745

At 31 December 2010, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$187,988,000 (2009: Nil).

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and 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 on 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)

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$305,516,000 based on their existing use. A revaluation surplus, net of tax, of HK$14,961,000, resulting from the above valuations, has been credited to other comprehensive income.

At 31 December 2010, certain of the Group's buildings with a net book value of approximately HK$41,219,000 (2009: HK$40,169,000) were pledged to secure general banking facilities granted to the Group (note 30).

Company

	Motor vehicles HK$'000
31 December 2010	
Cost:	
At 1 January 2010 and 31 December 2010	**518**
Accumulated depreciation:	
At 1 January 2010	**179**
Depreciation provided during the year	**93**
At 31 December 2010	**272**
Net book value:	
At 31 December 2010	**246**
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

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15. INVESTMENT PROPERTIES

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**285,254**	243,669
Transfer from owner-occupied properties *(note 14)*	**–**	38,105
Net profit from a fair value adjustment	**9,072**	3,496
Exchange realignment	**10,130**	(16)
Carrying amount at 31 December	**304,456**	285,254

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 2010 by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$304,456,000 on an open market, existing use basis.

At 31 December 2010, certain of the Group's investment properties with a carrying value of approximately HK$134,906,000 (2009: HK$131,482,000) were pledged to secure general banking facilities granted to the Group (note 30).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**63,433**	64,808
Addition	**4,725**	–
Recognised during the year	**(1,485)**	(1,370)
Exchange realignment	**2,168**	(5)
Carrying amount at 31 December	**68,841**	63,433
Current portion included in prepayments, deposits and other receivables *(note 23)*	**(1,520)**	(1,371)
Non-current portion	**67,321**	62,062

At 31 December 2010, the Group's prepaid land lease payments with an aggregate carrying amount of HK$51,509,000 (2009: HK$62,062,000) were pledged to secure general banking facilities granted to the Group (note 30).

At 31 December 2010, the Group has yet to obtain land use right certificates for certain land with a net book value of approximately HK$4,623,000 (2009: Nil).

17. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2010			
Cost:			
At 1 January 2010	**118,103**	**83,829**	**201,932**
Additions	**16,408**	**4,998**	**21,406**
Exchange realignment	**3,572**	**2,643**	**6,215**
At 31 December 2010	**138,083**	**91,470**	**229,553**
Accumulated amortisation:			
At 1 January 2010	**31,963**	**56,886**	**88,849**
Provided during the year	**33,240**	**9,690**	**42,930**
Exchange realignment	**1,538**	**1,942**	**3,480**
At 31 December 2010	**66,741**	**68,518**	**135,259**
Net carrying amount:			
At 31 December 2010	**71,342**	**22,952**	**94,294**
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

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31 December 2010

17. INTANGIBLE ASSETS (CONTINUED)

Company

	Patents and licences HK$'000
31 December 2010	
Cost:	
At 1 January 2010 and 31 December 2010	**7,780**
Accumulated amortisation:	
At 1 January 2010	**7,391**
Provided during the year	**389**
At 31 December 2010	**7,780**
Net carrying amount:	
At 31 December 2010	**–**
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

18. INVESTMENTS IN SUBSIDIARIES

	Company 2010 HK$'000	Company 2009 HK$'000
Unlisted shares, at cost	**44,991**	44,991
Capital contribution in respect of employee share-based compensation#	**37,115**	–
	82,106	44,991

The amounts due from subsidiaries included in the Company's current assets of HK$202,204,000 (2009: HK$221,085,000) are unsecured, interest-free and are 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	Percentage of equity attributable to the Company 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	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 Telecommunications Scientific Co., Ltd.**	PRC/ Mainland China	RMB120,000,000	–	100	Manufacture of mobile phones
Xi'an Coolpad Software Tech Co., Ltd.**	PRC/ Mainland China	RMB8,000,000	–	100	Provision of product design and software development for mobile handsets
Coolpad Overseas Limited	Hong Kong	US$1,250,000	–	60	Dormant

The amount represents share-based compensation expenses arising from the granting of the Company's share options and awarding of the Company's shares to employees of the Company's subsidiaries in exchange for their services provided to these companies.

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

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

19. INVESTMENTS IN ASSOCIATES

	Group	
	2010	2009
	HK$'000	HK$'000
Share of net assets	**196**	8,513

At 31 December 2010, 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 Handset Antenna Technology Co., Ltd. ("Shenzhen Handset") *	PRC/Mainland China	RMB1,250,000	20	Research, development and sale of telecommunication products

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

* not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

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

	2010	2009
	HK$'000	HK$'000
Assets	**1,570**	34,050
Liabilities	**590**	–
Loss	**(477)**	(13)

The winding up of Shenzhen Tendbloom Information Technology Co., Ltd, a then 25%-owned associate, was completed during the year. During the year, the Group acquired Shenzhen Handset, a 20%-owned associate from an independent third party.

20. INVENTORIES

	Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**453,928**	285,894
Work in progress	**109,518**	92,301
Finished goods	**271,732**	139,894
	835,178	518,089

21. TRADE RECEIVABLES

	Group	
	2010	2009
	HK$'000	HK$'000
Trade receivables	**224,069**	295,465
Impairment	**(2,056)**	(1,087)
	222,013	294,378

Sales of the Group's products are normally settled on a cash-on-delivery basis. However, in the case of long-standing customers and those with a good repayment history, the Group may offer these customers with a credit period of 30 to 90 days. Trade receivables are non-interest-bearing.

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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	
	2010	2009
	HK$'000	HK$'000
Within 3 months	**196,437**	292,426
4 to 6 months	**3,760**	1,702
7 to 12 months	**21,682**	250
1 to 2 years	**2,190**	510
Over 2 years	**–**	577
	224,069	295,465
Less: Impairment	**(2,056)**	(1,087)
	222,013	294,378

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**1,087**	6,018
Impairment losses recognised *(note 6)*	**909**	1,120
Amount written off as uncollectible	**–**	(6,046)
Exchange realignment	**60**	(5)
	2,056	1,087

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$2,056,000 (2009: HK$1,087,000) with a carrying amount before provision of HK$2,056,000 (2009: HK$1,087,000). 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	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**196,437**	292,426
Less than 3 months past due	**3,760**	1,702
More than 3 months past due	**21,816**	250
	222,013	294,378

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.

22. BILLS RECEIVABLE

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills receivable	**216,388**	45,644	**5,250**	–
Bills receivable discounted with recourse	**480,850**	–	**480,850**	–
	697,238	45,644	**486,100**	–

22. BILLS RECEIVABLE (CONTINUED)

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**216,388**	45,644	**5,250**	–
3 to 12 months	**480,850**	–	**480,850**	–
	697,238	45,644	**486,100**	–

Bills receivable are non-interest-bearing.

At 31 December 2010 and 2009, the Group did not have any past due or impaired bills receivable.

At 31 December 2010, certain of the Group's bills receivable with a carrying amount of HK$147,473,000 (2009: Nil) were pledged to secure the bills payable (note 27).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to suppliers	**111,740**	102,657	**1,708**	531
Current portion of prepaid land lease payments *(note 16)*	**1,520**	1,371	**–**	–
Deposits and other receivables	**55,451**	17,588	**39**	43
Prepayment for purchase of leasehold land	**40,438**	22,644	**–**	–
Prepayment for purchase of property, plant and equipment	**3,338**	42,424	**–**	–
Prepaid expenses	**10,502**	3,099	**–**	–
	222,989	189,783	**1,747**	574
Non-current portion	**(46,607)**	(68,167)	**–**	–
	176,382	121,616	**1,747**	574

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 are as follows:

	Group	
Name	**2010 HK$'000**	2009 HK$'000
Mr. Guo Deying	**125**	187
Mr. Jiang Chao	**7**	7
Mr. Li Bin	**79**	–
Mr. Li Wang	**369**	357
	580	551

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	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Cash and bank balances	**641,895**	251,401	**68,382**	16,807
Time deposits	**728,123**	186,737	**26,128**	26,121
	1,370,018	438,138	**94,510**	42,928
Less: Pledged time deposits:				
– Pledged for bills payable *(note 27)*	**(59,168)**	(110,165)	**–**	–
– Pledged for short-term loans	**(70,511)**	–	**–**	–
– Pledged for issuance of letters of credit	**(598,444)**	(76,572)	**(26,128)**	(26,121)
	(728,123)	(186,737)	**(26,128)**	(26,121)
Cash and cash equivalents	**641,895**	251,401	**68,382**	16,807

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$555,103,000 (2009: HK$233,845,000). 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	
	2010	2009
	HK$'000	HK$'000
Within 3 months	**532,048**	365,196
4 to 6 months	**19,533**	1,084
7 to 12 months	**4,154**	577
Over 1 year	**10,818**	3,013
	566,553	369,870

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

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	
	2010	2009
	HK$'000	HK$'000
Within 3 months	**208,597**	138,279
3 to 12 months	**480,850**	–
	689,447	138,279

At 31 December 2010, the Group's bills payable were secured by time deposits of HK$59,168,000 (2009: HK$110,165,000) (note 25) and bills receivable of HK$147,473,000 (2009: Nil) (note 22).

28. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2010	2009	**2010**	2009
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accrued royalties		**196,159**	90,548	**–**	–
Advances from customers		**178,472**	98,600	**2,420**	2,323
Product warranty provision	*(a)*	**20,477**	13,363	**–**	–
Accrued sales incentives		**155,188**	105,951	**–**	–
Other accruals		**3,029**	2,135	**3,029**	–
Other payables		**172,430**	186,556	**1,127**	1,973
		725,755	497,153	**6,576**	4,296

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 the product warranty provision are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**13,363**	5,927
Additional provision	**31,649**	17,566
Amounts utilised during the year	**(25,154)**	(10,131)
Exchange realignment	**619**	1
At 31 December	**20,477**	13,363

The Group provides a one-year warranty on its products sold to 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. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2010 Liabilities HK$'000	2009 Liabilities HK$'000	**2010 Liabilities HK$'000**	2009 Liabilities HK$'000
Forward currency contracts	**7,886**	–	**7,886**	–
Interest rate swaps	**2,810**	–	**2,810**	–
	10,696	–	**10,696**	–

During the year, the Group entered into forward currency contracts with a bank to (a) purchase US dollars (amounted to the US dollar loans plus interests thereon) in Renminbi at predetermined forward rates with a facility amount of US$64,000,000; and (b) purchase Renminbi in Hong Kong dollar at predetermined forward rates with a facility amount of US$11,120,000. In the meantime, the Group also entered into interest rate swaps with the bank to receive interest at floating rates and pay interest at fixed rates with a facility amount of US$64,000,000.

29. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Major terms of the forward currency contracts at 31 December 2010 are as follows:

Aggregate principal amount	Maturity	Forward exchange rate
US$18,980,000	From September 2010 to September 2011	Buy US$/sell RMB at 6.5880 to 6.7430
US$14,416,000	From October 2010 to October 2011	Buy US$/sell RMB at 6.4585 to 6.5295
US$16,553,000	From November 2010 to November 2011	Buy US$/sell RMB at 6.4545 to 6.5235
US$11,146,000	From December 2010 to December 2011	Buy US$/sell RMB at 6.4870 to 6.5100
HK$68,000,000	From September 2010 to May 2011	Buy HK$/sell RMB at 0.8590

Major terms of the interest rate swaps at 31 December 2010 are as follows:

Aggregate principal amount	Maturity	Interest rate
US$18,980,000	From September 2010 to September 2011	Pay fixed rate of 1.650% to 1.670%/ receive floating rate
US$14,416,000	From October 2010 to October 2011	Pay fixed rate of 1.650% to 1.895%/ receive floating rate
US$16,553,000	From November 2010 to November 2011	Pay fixed rate of 1.890% to 1.920%/ receive floating rate
US$11,146,000	From December 2010 to December 2011	Pay fixed rate of 1.930% to 1.970%/ receive floating rate

The forward currency contracts and interest rate swaps did not meet the criteria for hedge accounting. At 31 December 2010, the fair value of the Group's forward currency contracts and the fair value of the Group's interest rate swaps are estimated to be a financial liability of HK$7,886,000 (2009: Nil) and HK$2,810,000, respectively. These amounts are based on market prices quoted by the counterparty financial institutions at 31 December 2010. During the year, the loss on changes in fair value of the forward currency contracts and interest rate swaps, amounting to HK$10,696,000 (2009: Nil) in total, has been recognised in the profit or loss.

30. INTEREST-BEARING BANK BORROWINGS

Group	2010 Effective interest rate (%)	2010 Maturity	2010 HK$'000	2009 Effective interest rate (%)	2009 Maturity	2009 HK$'000
Current						
Bank loans – secured	**6.22**	**2011**	**116,794**	5.76-5.94	2010	72,686
Bank loans – unsecured	**5.94-5.96**	**2011**	**14,255**	5.4-5.94	2010	6,962
Bank loans – discounted bills with recourse	**1.17-1.66**	**2011**	**475,492**			–
			606,541			79,648
Non-current						
Bank loans – secured	**6.22**	**2012-2013**	**117,518**	5.76-5.94	2011-2013	183,986
Bank loans – unsecured	**5.94-5.96**	**2012-2018**	**15,122**	5.4-5.94	2011-2018	28,370
			132,640			212,356
			739,181			292,004
Analysed into bank loans repayable:						
Within one year or on demand			**606,541**			79,648
In the second year			**65,963**			77,376
In the third to fifth years, inclusive			**66,269**			134,458
Beyond five years			**408**			522
			739,181			292,004

Company	2010 Effective interest rate (%)	2010 Maturity	2010 HK$'000
Current			
Bank loans – discounted bills with recourse	**1.17-1.66**	**2011**	**475,492**

30. 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$176,125,000 (2009: HK$171,651,000);

(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$51,509,000 (2009: HK$62,062,000); and

(iii) the pledge of the Group's time deposits which had a carrying value at the end of the reporting period of approximately HK$70,511,000 (2009: Nil).

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

	2010 **HK$'000**	2009 HK$'000
Personal guarantees from related parties:		
– Mr. Guo Deying	**192,730**	290,744
– Ms. Yang Xiao*	**192,730**	290,744
Corporate guarantee from an independent third-party:		
– Dongguan Songshan Lake Industrial Development Co., Ltd.	**1,172**	1,260

* Ms. Yang Xiao is the spouse of Mr. Guo Deying.

(b) At the end of the reporting period, all the Group's bank borrowings bear interest at floating rates.

(c) At the end of the reporting period, the Group's bank borrowings of HK$195,689,000 were denominated in RMB, HK$475,492,000 were denominated in US$ and HK$68,000,000 were denominated in HK$.

31. DUE TO AN ASSOCIATE

At 31 December 2009, the amount due to an associate was non-trade in nature, unsecured, interest-free and repayable on demand.

32. 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 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 and 1 January 2010	**24,381**	**3,695**	**28,076**
Debited to equity during the year	**3,670**	**–**	**3,670**
Charged to the profit or loss for the year	**5,377**	**4,514**	**9,891**
Exchange differences	**988**	**–**	**988**
At 31 December 2010	**34,416**	**8,209**	**42,625**

DEFERRED TAX ASSETS

Group	Provision for impairment of assets HK$'000	Amortisation allowance in excess of related amortisation HK$'000	Accruals and other provision HK$'000	Total HK$'000
Credited to the profit or loss for the year and at 31 December 2009 and 1 January 2010	**–**	**1,803**	**–**	**1,803**
Credited to the profit or loss for the year	**4,382**	**2,113**	**12,623**	**19,118**
Exchange differences	**104**	**113**	**301**	**518**
At 31 December 2010	**4,486**	**4,029**	**12,924**	**21,439**

32. DEFERRED TAX (CONTINUED)

DEFERRED TAX LIABILITIES NOT RECOGNISED

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 the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by the PRC Subsidiaries in respect of their earnings generated from 1 January 2008.

At 31 December 2010, the Group has not recognised deferred tax liabilities of HK$89,659,000 (2009: HK$32,424,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$896,589,000 (2009: HK324,242,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

DEFERRED TAX ASSETS NOT RECOGNISED

The Group had accumulated tax losses arising in Mainland China of HK$75,938,000 in the current year which will expire in 2013 for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

33. SHARE CAPITAL

	2010 **HK$'000**	2009 HK$'000
Authorised:		
20,000,000,000 (2009: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,102,360,000 (2009: 2,059,084,000) ordinary shares of HK$0.01 each	**21,024**	20,591

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

(a) The subscription rights attaching to 25,408,000 share options were exercised at the subscription price of HK$0.4615 per share (note 34), resulting in the issue of 25,408,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$11,725,792.

(b) The subscription rights attaching to 5,608,000 share options were exercised at the subscription price of HK$1.415 per share (note 34), resulting in the issue of 5,608,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$7,935,320.

33. SHARE CAPITAL (CONTINUED)

(c) The subscription rights attaching to 2,308,000 share options were exercised at the subscription price of HK$0.674 per share (note 34), resulting in the issue of 2,308,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$1,555,592.

(d) The subscription rights attaching to 9,952,000 share options were exercised at the subscription price of HK$0.397 per share (note 34), resulting in the issue of 9,952,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$3,950,944.

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 2009		2,040,116,000	20,401	199,552	219,953
Share options exercised		18,968,000	190	6,580	6,770
Transfer from share option reserve		–	–	2,264	2,264
Proposed final 2009 dividend		–	–	(55,882)	(55,882)
At 31 December 2009 and 1 January 2010		**2,059,084,000**	**20,591**	**152,514**	**173,105**
Share options exercised	*(a) to (d)*	**43,276,000**	**433**	**24,735**	**25,168**
Transfer from share option reserve	*36*	**–**	**–**	**10,257**	**10,257**
Proposed final 2010 dividend		**–**	**–**	**(112,717)**	**(112,717)**
At 31 December 2010		**2,102,360,000**	**21,024**	**74,789**	**95,813**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the financial statements.

34. 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.

34. SHARE OPTION SCHEME (CONTINUED)

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

	2010		2009	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.733**	**118,200**	0.765	118,500
Granted during the year	**3.24**	**65,880**	0.397	31,572
Exercised during the year	**0.582**	**(43,276)**	0.357	(18,968)
Forfeited during the year	**–**	**–**	0.773	(12,520)
Expired during the year	**0.4615**	**(192)**	0.2175	(384)
At 31 December	**1.9553**	**140,612**	0.733	118,200

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.179 per share (2009: HK$0.933 per share).

34. 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:

2010

Number of options '000	Exercise price* HK$ per share	Exercise period
684	0.4615	27-07-07 to 26-07-11
11,176	1.415	18-09-08 to 17-09-12
11,216	1.415	18-09-10 to 17-09-14
10,156	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
852	0.397	27-02-10 to 26-02-11
8,464	0.397	27-02-10 to 26-02-12
5,112	0.397	27-02-10 to 26-02-14
4,800	0.397	27-02-13 to 26-02-17
16,904	3.24	28-06-11 to 27-06-15
19,704	3.24	28-06-12 to 27-06-16
15,772	3.24	28-06-13 to 27-06-17
13,500	3.24	28-06-14 to 27-06-18
140,612		

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		

* 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.

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34. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the year was approximately HK$87,155,000 (2009: HK$5,022,000) of which the Group recognised a share option expense of HK$12,989,000 (2009: HK$2,633,000) during the year ended 31 December 2010.

At 31 December 2010, the equity-settled share option expenses under the Scheme of HK$80,361,000 had not been recognised in the profit or loss.

The fair value of 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$87,155,000 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:

	2010	2009
Dividend yield (HK$)	**0.02**	0.01
Expected volatility (%)	**70**	71.56-87.94
Historical volatility (%)	**70**	71.56-87.94
Risk-free interest rate (%)	**1.554-2.089**	0.75-1.87
Weighted average share price (HK$ per share)	**2.95**	0.365

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 43,276,000 share options exercised during the year resulted in the issue of 43,276,000 ordinary shares of the Company and new share capital of HK$433,000 and share premium of HK$24,735,000 (before issue expenses), as further detailed in note 33 to the financial statements.

At the end of the reporting period, the Company had 140,612,000 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 140,612,000 additional ordinary shares of the Company and additional share capital of HK$1,406,000 and share premium of HK$273,535,000 (before issue expenses).

Subsequent to the end of the reporting period, a total of 3,578,000 share options were exercised, resulting in the issue of 3,578,000 ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 137,034,000 share options outstanding under the Scheme, which represented approximately 6.07% of the Company's shares in issue as at that date.

35. 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.

The Trustee purchased in aggregate 19,024,000 shares of the Company at a total cost (including related transaction costs) of approximately HK$3,799,000 during the period from October 2008 to January 2009.

During the year, the Trustee awarded a total number of 17,420,000 (2009: Nil) shares to a number of employees at nil consideration. The total costs of the related shares awarded during the year was HK$3,478,000.

At the date of approval of these financial statements, the remaining 1,604,000 shares of the Company under the Share Award Plan have yet to be awarded.

36. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 42 to 43 of the financial statements.

The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group's reorganisation on 31 July 2003 over the nominal value of the Company's shares issued in exchange therefor.

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.

(b) COMPANY

	Notes	**Share premium account** HK$'000 *(Note (a))*	**Contributed surplus** HK$'000 *(Notes (a) and (b))*	**Share option reserve** HK$'000	**Share award reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Retained profit/ (accumulated loss)** HK$'000	**Total** HK$'000
At 1 January 2009		199,552	44,992	21,438	–	388	(4,237)	262,133
Total comprehensive income for the year	*11*	–	–	–	–	–	31,307	31,307
Issue of shares	*33*	6,580	–	–	–	–	–	6,580
Transfer from share option reserve	*33*	2,264	–	(2,264)	–	–	–	–
Equity-settled share option arrangements		–	–	9,477	–	–	–	9,477
Interim 2009 dividend	*12*	–	–	–	–	–	(20,279)	(20,279)
Proposed final 2009 dividend	*12*	(55,882)	–	–	–	–	(6,791)	(62,673)
At 31 December 2009 and 1 January 2010		152,514	44,992	28,651	–	388	–	226,545
Total comprehensive income for the year	*11*	–	–	–	–	–	61,615	61,615
Issue of shares	*33*	24,735	–	–	–	–	–	24,735
Transfer from share option reserve	*33*	10,257	–	(10,257)	–	–	–	–
Equity-settled share option arrangements		–	–	19,537	–	–	–	19,537
Shares awarded under the Share Award Plan		–	–	–	41,304	–	–	41,304
Difference between the proposed final 2009 dividend with the actual dividend paid		–	–	–	–	–	27	27
Interim 2010 dividend	*12*	–	–	–	–	–	(20,984)	(20,984)
Proposed final 2010 dividend	*12*	(112,717)	–	–	–	–	–	(112,717)
At 31 December 2010		74,789	44,992	37,931	41,304	388	40,658	240,062

36. RESERVES (CONTINUED)

(b) COMPANY (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 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.

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 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**10,550**	21,721
In the second to fifth years, inclusive	**6,104**	13,639
	16,654	35,360

(b) AS LESSEE

The Group leases certain of its warehouses and office premises under operating lease arrangements for lease terms ranging from one to five years. The total future minimum lease payments under non-cancellable operating leases committed at the end of reporting period to be made by the Group were as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**10,200**	3,583
In the second to fifth years, inclusive	**8,832**	1,273
	19,032	4,856

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	
	2010	2009
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**38,988**	25,658

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

In addition to the amounts paid to the Company's directors as disclosed in note 8, compensation of other key management personnel of the Group is set out as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,461**	6,975
Pension scheme contributions	**47**	51
Equity-settled share option expense	**375**	941
Total compensation paid to key management personnel	**2,883**	7,967

(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 31 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 a director of the Company and his spouse, details of which are included in note 30 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 RECEIVABLES

	Group	
	2010	2009
	HK$'000	HK$'000
Trade receivables	**222,013**	294,378
Bills receivable	**697,238**	45,644
Financial assets included in prepayments, deposits and other receivables	**55,451**	17,588
Pledged time deposits	**728,123**	186,737
Cash and cash equivalents	**641,895**	251,401
	2,344,720	795,748

FINANCIAL LIABILITIES

	Group		
	2010		2009
	Financial liabilities at fair value	**Financial liabilities at amortised cost**	Financial liabilities at amortised cost
	HK$'000	**HK$'000**	HK$'000
Trade payables	**–**	**566,553**	369,870
Bills payable	**–**	**689,447**	138,279
Financial liabilities included in other payables and accruals	**–**	**172,430**	186,556
Derivative financial instruments	**10,696**	**–**	–
Interest-bearing bank borrowings	**–**	**739,181**	292,004
Due to an associate	**–**	**–**	7,413
	10,696	**2,167,611**	994,122

40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

FINANCIAL ASSETS – LOANS AND RECEIVABLES

	Company	
	2010	2009
	HK$'000	HK$'000
Due from subsidiaries	**202,204**	221,085
Bills receivable	**486,100**	–
Financial assets included in deposits and other receivables	**39**	43
Pledged time deposits	**26,128**	26,121
Cash and cash equivalents	**68,382**	16,807
	782,853	264,056

FINANCIAL LIABILITIES

	Company		
	2010		2009
	Financial liabilities at fair value	**Financial liabilities at amortised cost**	Financial liabilities at amortised cost
	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and accruals	**–**	**1,127**	1,973
Derivative financial instruments	**10,696**	**–**	–
Interest-bearing bank borrowings	**–**	**475,492**	–
	10,696	**476,619**	1,973

41. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

	Group			
	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade receivables	**222,013**	294,378	**222,013**	294,378
Bills receivable	**697,238**	45,644	**697,238**	45,644
Financial assets included in prepayments, deposits and other receivables	**55,451**	17,588	**55,451**	17,588
Pledged time deposits	**728,123**	186,737	**728,123**	186,737
Cash and cash equivalents	**641,895**	251,401	**641,895**	251,401
	2,344,720	795,748	**2,344,720**	795,748
Financial liabilities				
Trade payables	**566,553**	369,870	**566,553**	369,870
Bills payable	**689,447**	138,279	**689,447**	138,279
Financial liabilities included in other payables and accruals	**172,430**	186,556	**172,430**	186,556
Derivative financial instruments	**10,696**	–	**10,696**	–
Interest-bearing bank borrowings	**739,181**	292,004	**739,181**	292,004
Due to an associate	**–**	7,413	**–**	7,413
	2,178,307	994,122	**2,178,307**	994,122

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41. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

	Company			
	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Due from subsidiaries	**202,204**	221,085	**202,204**	221,085
Bills receivable	**486,100**	–	**486,100**	–
Financial assets included in deposits and other receivables	**39**	43	**39**	43
Pledged time deposits	**26,128**	26,121	**26,128**	26,121
Cash and cash equivalents	**68,382**	16,807	**68,382**	16,807
	782,853	264,056	**782,853**	264,056
Financial liabilities				
Financial liabilities included in other payables and accruals	**1,127**	1,973	**1,127**	1,973
Derivative financial instruments	**10,696**	–	**10,696**	–
Interest-bearing bank borrowings	**475,492**	–	**475,492**	–
	487,315	1,973	**487,315**	1,973

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged time deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amount due to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

41. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

FAIR VALUE HIERARCHY

At 31 December 2010, neither the Group nor the Company had financial assets measured at fair value.

At 31 December 2010, the financial liabilities measured at fair values of the Group and of the Company were derivative financial instruments. The Group and the Company use fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly for determining and disclosing the fair value of the derivative financial instruments.

At 31 December 2009, neither the Group nor the Company had financial assets or financial liabilities measured at fair value.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, 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.

The Group also enters into the derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

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.

42. 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 bank borrowings which bear interest at floating rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 30.

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

	Group		Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
2010				
Renminbi	**100**	**(1,957)**	**100**	**–**
Hong Kong dollar	**100**	**(680)**	**100**	**–**
United States dollar	**100**	**(4,755)**	**100**	**(4,755)**
Renminbi	**(100)**	**1,957**	**(100)**	**–**
Hong Kong dollar	**(100)**	**680**	**(100)**	**–**
United States dollar	**(100)**	**4,755**	**(100)**	**4,755**
2009				
Renminbi	100	(2,122)	100	–
Renminbi	(100)	2,122	(100)	–

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK

As the Group's operating units are located in Mainland China, the Group's 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 Yulong Shenzhen, Dongguan 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 71% (2009: 94%) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

42. 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

	2010			
	On demand and less than 12 months HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**624,264**	**141,668**	**687**	**766,619**
Trade payables	**555,735**	**10,818**	**–**	**566,553**
Bills payable	**689,447**	**–**	**–**	**689,447**
Financial liabilities included in other payables and accruals	**172,430**	**–**	**–**	**172,430**
Derivative financial instruments	**10,696**	**–**	**–**	**10,696**
	2,052,572	**152,486**	**687**	**2,205,745**

	2009			
	On demand and 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	186,556	–	–	186,556
Due to an associate	7,413	–	–	7,413
	796,833	230,852	628	1,028,313

42. 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

	2010 On demand and less than 12 months HK$'000
Interest-bearing bank borrowings	**481,200**
Financial liabilities included in other payables and accruals	**1,127**
Derivative financial instruments	**10,696**
	493,023

	2009 On demand and less than 12 months HK$'000
Financial liabilities included in other payables and accruals	1,973

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 2010 and 2009.

42. 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 end of the reporting periods were as follows:

Group

	2010 **HK$'000**	2009 HK$'000
Interest-bearing bank borrowings	**739,181**	292,004
Trade payables	**566,553**	369,870
Bills payable	**689,447**	138,279
Other payables and accruals	**725,755**	497,153
Due to an associate	**–**	7,413
Less: Cash and cash equivalents	**(641,895)**	(251,401)
Net debt	**2,079,041**	1,053,318
Equity attributable to owners of the Company	**1,416,607**	879,126
Capital and net debt	**3,495,648**	1,932,444
Gearing ratio	**59%**	55%

43. EVENTS AFTER THE REPORTING PERIOD

On 19 January 2011, the Group entered into a placing agreement with Data Dreamland and a placing agent to place 150,000,000 existing shares and issue 150,000,000 shares at HK$4.55 per share, respectively. The placing and the subscription were completed on 24 January 2011 and 28 January 2011, respectively. The Group intends to apply such net proceeds of approximately HK$669,000,000 from the placing of the Company's shares for its general working capital.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2011.