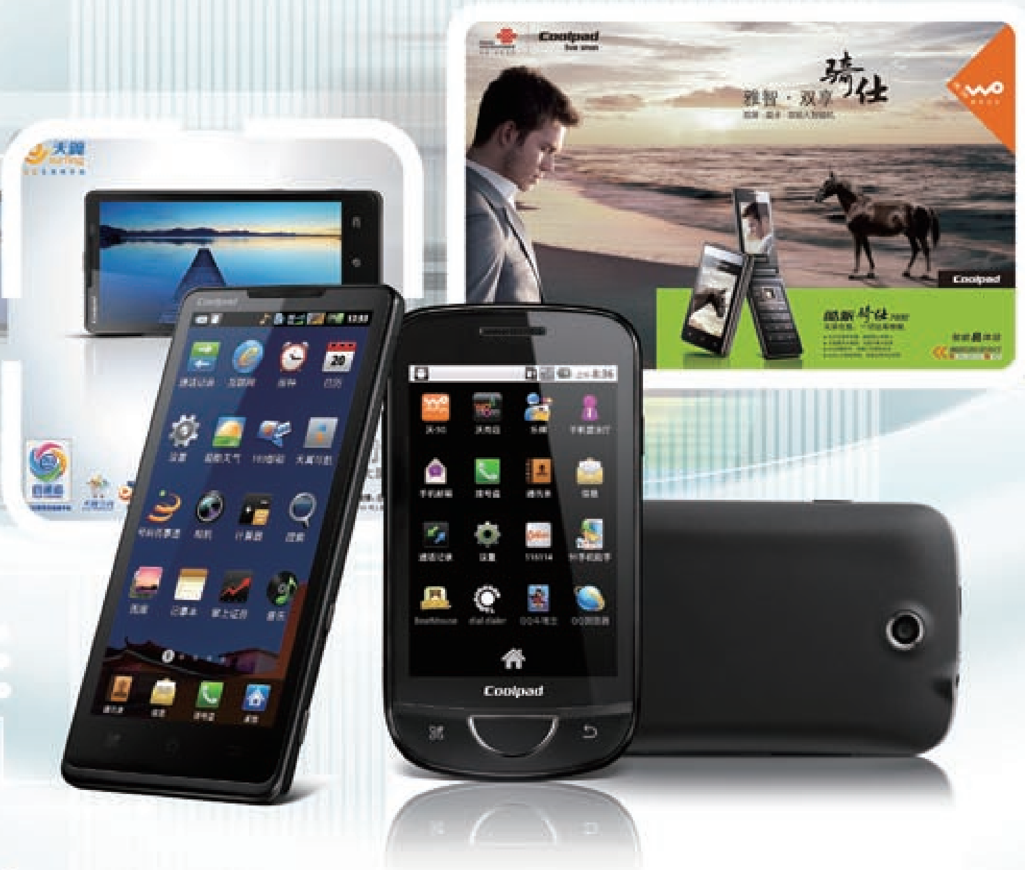
中国无线
CHINA WIRELESS

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
2011

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).

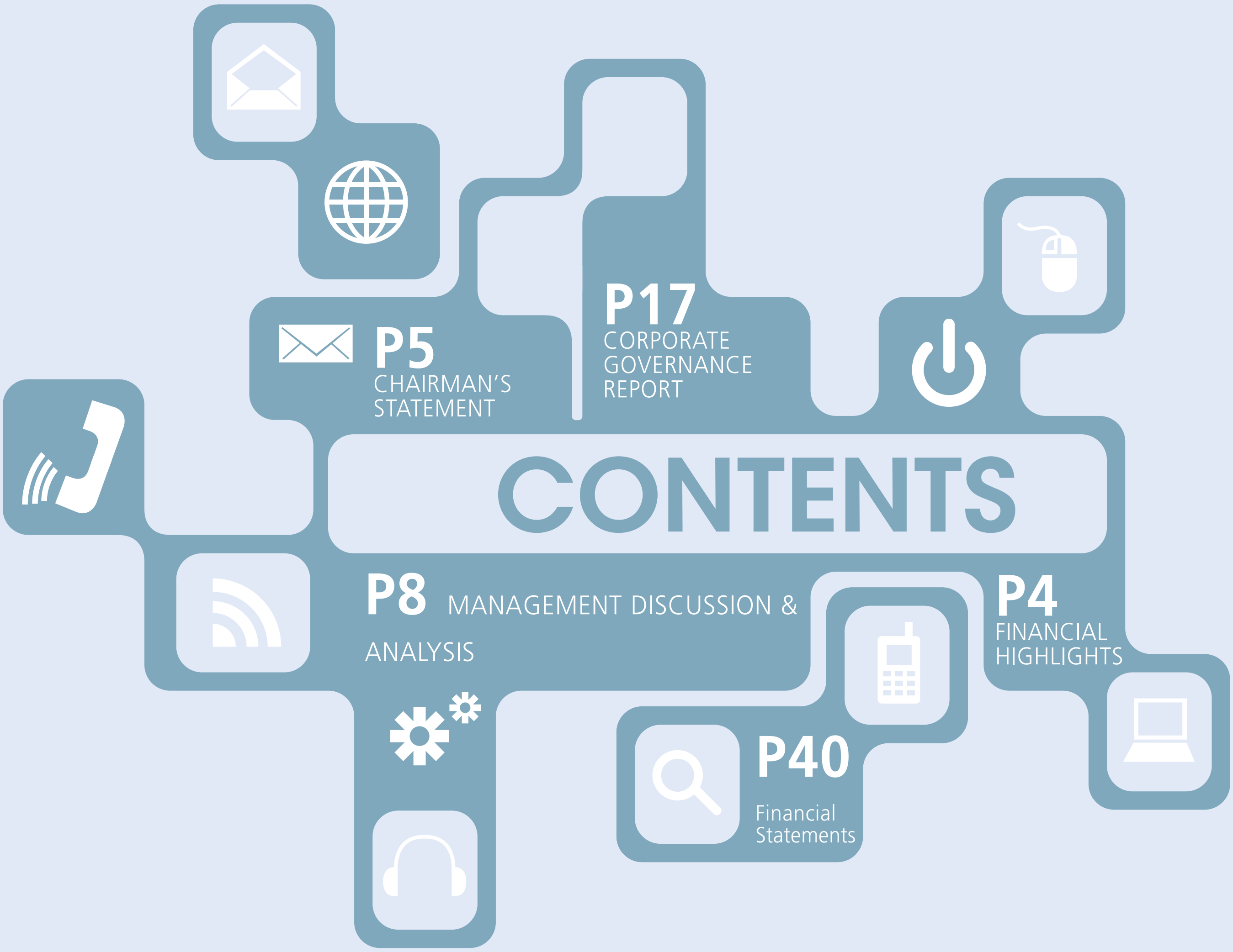
Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen") is an indirect wholly owned subsidiary of the Company. It was founded by Mr. GUO Deying (the Company's chairman, executive director and chief executive officer) in April 1993. Yulong Shenzhen is a leading developer and provider of integrated solutions for Coolpad 酷派 smartphone sets, mobile data platform system, and value-added business operations in the People's Republic of China (the "PRC" or the "Mainland China"). Yulong Shenzhen mainly provides its Coolpad products for enterprises, government and mobile operators as well as individual consumers in the PRC.

In the last decade, capitalizing on the development of wireless telecommunications technological know-how in wireless telecommunications across multiple wireless telecommunications network standards including GSM, CDMA1X, TD-SCDMA, CDMA1X(EVDO) and WCDMA networks, the Company and its subsidiaries (collectively, the "Group") have developed a large number of proprietary technologies and patents in mobile operating systems, radio frequency, protocols and wireless data decomposed transmission technology, etc. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of 3G smartphone in the Mainland China's telecommunications market.

In spite of being a leading smartphone developer in Mainland China's telecommunications market, the Group has succeeded in breaking into the global telecommunications market in respect of Coolpad brand with the overseas telecommunications operators. The Group has established strong and close strategic cooperation relationships with certain global telecommunications operators and is striving to further develop its business in the global telecommunications markets.

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

CONTENTS


P17
CORPORATE GOVERNANCE REPORT
P5
CHAIRMAN'S STATEMENT
P8
MANAGEMENT DISCUSSION & ANALYSIS
P4
FINANCIAL HIGHLIGHTS
P40
Financial Statements

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

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Hi-Tech Industry Park (Northern)
Nanshan District
Shenzhen

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. JIANG Chao, ACCA

AUDIT COMMITTEE & REMUNERATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. GUO Deying (resigned on 12 April 2011)
Mr. JIANG Chao
Mr. LI Wang (with effect from 12 April 2011)

CONTACT INFORMATION FOR INVESTOR RELATIONS

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

AUDITORS AND REPORTING ACCOUNTANTS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue,
Central
Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong
17th Floor
Edinburgh Tower
The Landmark
15 Queen's Road
Central
Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

COMPLIANCE ADVISER

China Everbright Capital Limited
17/F
Far East Finance Centre
16 Harcourt Road
Hong Kong

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
Hong Kong and Shanghai Banking (Hong Kong) Co., Ltd.

COMPANY WEBSITES

www.chinawireless.cn

STOCK CODE

2369

無論何時，豐富生活色彩

ANYTIME RICH IN SPECTACULAR

FINANCIAL HIGHLIGHTS

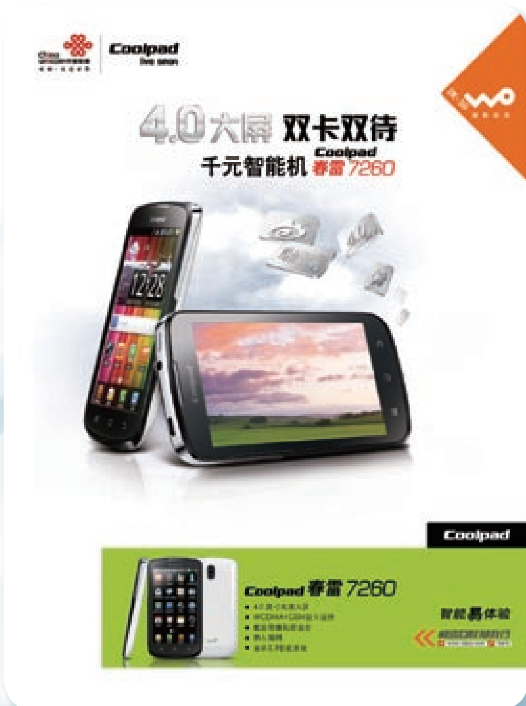
The financial data below are extracted from the Group's audited financial statements audited by Ernst & Young and prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

RESULTS

	Year ended 31 December (HK$'000)				
	2011	2010	2009	2008	2007
Operating revenue	**7,340,495**	4,592,699	2,604,865	1,007,135	1,277,663
Profit/(loss) before tax	**324,297**	545,101	263,579	(64,307)	167,520
Tax	**(53,228)**	(64,836)	(23,574)	(11,769)	–
Profit/(loss) for the year	**271,069**	480,265	240,005	(76,076)	167,520

FINANCIAL POSITION

	As at 31 December (HK$'000)				
	2011	2010	2009	2008	2007
Non-current assets	**1,151,664**	951,550	831,430	722,360	432,000
Current assets	**6,379,541**	3,301,409	1,418,416	862,915	812,149
Non-current liabilities	**143,212**	180,318	245,096	225,480	91,083
Current liabilities	**5,198,303**	2,652,149	1,125,624	718,696	491,716
Net assets	**2,189,690**	1,420,492	879,126	641,099	661,350



CHAIRMAN'S STATEMENT

Guo Deying

Chairman, Executive Director and CEO

Dear fellow shareholders:

It is my great honor to present the annual results of the Group for the year ended 31 December 2011 to our investors. Along with the strong growth momentum of the 3G smartphone market in China, we have achieved a record-breaking performance in the volume of the full year shipments during the year under review, which more than doubles our 2010 shipments number. The historic result reflects not only strong market growth, but also dedication by our employees and strong brand recognition from our customers and consumers.

FINANCIAL PERFORMANCE

For the year ended 31 December 2011, we recorded consolidated revenue of HK$7,340.5 million, representing a growth of 59.8%, as compared with that of 2010. Consolidated gross profit and gross profit margin (hereinafter referred to as "GP margin") were HK$1,081.4 million and 14.7% respectively. Consolidated operating profit was HK$271.1 million, and consolidated operating margin was 3.7%. We have maintained a strong financial position in 2011. As of 31 December 2011, the Group held cash and cash equivalents of approximately HK$1,058.9 million. This strengthened financial flexibility to support our future business growth.

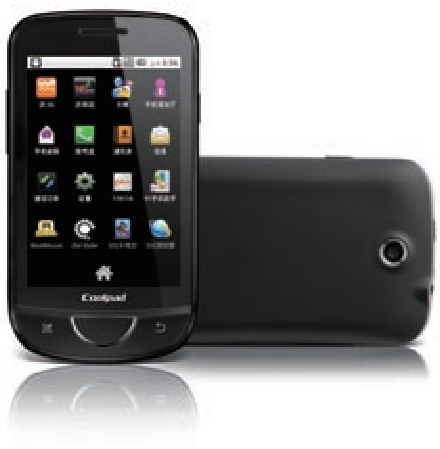
DIVIDEND DISTRIBUTION

Basic and diluted earnings per share of the Company reached HK12.39 cents and HK12.15 cents for the year ended 31 December 2011, respectively. The Directors proposed a final dividend of HK2.0 cents per share. Together with the interim dividend of HK1.0 cent per share paid in September 2011, the total dividend for the full year is HK3.0 cents per share.

BUSINESS DEVELOPMENT

During the year under review, we enhanced to promote mid- and low-end Coolpad 3G smartphones while steadily expanding and optimizing the product portfolio in order to strengthen our market share and to build a sustainable business for the long term. In the full year of 2011, we have launched 30 new

CHAIRMAN'S STATEMENT

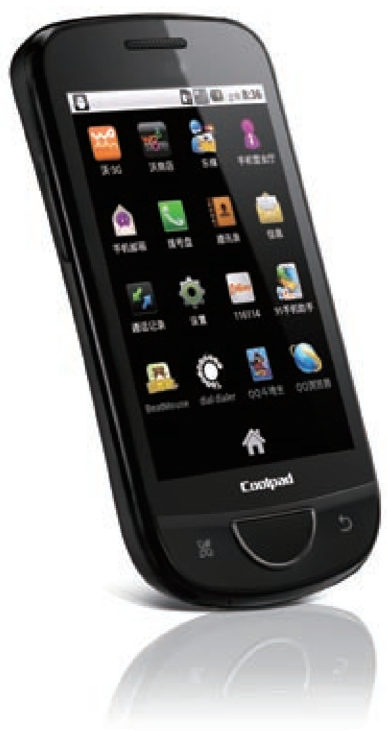


Coolpad W706

3G smartphones, which covered from the high-end to the mid- and low-end smartphone. We also released the global 5-inch screen high-end smartphone, called Coolpad Magview I 9930, which is the dual-model smartphone for CDMA-EVDO and GSM network working together, and our flagship smartphone named Coolpad Magview II 9900, which had a higher hardware spec and better user experience, including the larger storage and touch panel size, the faster CPU, the thinner industry design.

In 2011, more and more star models with a huge volume of shipments emerged (such as E239 an entry-level 3G smartphone and was positioned to tap the younger consumer segment, D539 a long standby time smartphone, W706 the first Coolpad low-end WCDMA network smartphone). At the same time, except these star models, we also launched a series of better cost/performance smartphones with more individual features (such as 5820 One-Key Weibo 3G Android smartphone optimized for mobile social networking, 5860 a 4-inch screen smartphone at a lower price, 8810 the online TV TD-SCDMA smartphone). These 3G smartphones ranged from high-end to low-end models which tremendously strengthened our product portfolio. So far, the Group established a strong product portfolio covering 3 types of 3G networks with retail price ranged from RMB500 to RMB5,000.

We still insisted on developing the innovative technology, and emphasized the accumulative R&D capability last year, especially developing deep on Android operating system (hereinafter referred to as "Android OS"). The R&D department has completed the reconstruction in 2011, which helped us have faster speed on the platform development. Once the platform developed faster, and the differentiated Android OS was more mature, we could release new smartphones more quickly, and capture more market share because of the richer product line and differentiated products. The R&D investments also led us to develop and get more significant patents.



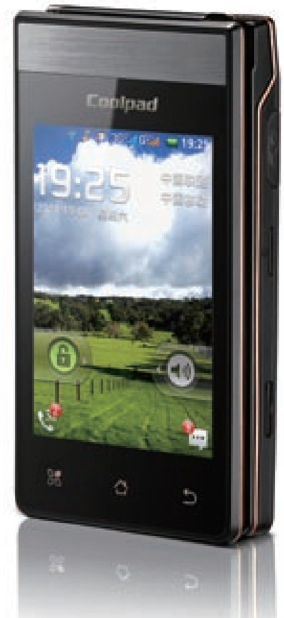
Coolpad W706

We strengthened the depth of cooperation with the telecommunications operators in the field of R&D on next generation network technologies (such as LTE of 4G technology), mobile payment (such as NFC technology) and other technologies related to cloud computing and storage. As of the end of 31 December 2011, we have already released two versions of Coolcloud (based on cloud computing and storage), which could help Coolpad users synchronize the ordinary data, such as the contact, SMS, phone record, and share the information. The Coolpad users could also enjoy the Coolmedia, Coolweather, and so on, provided by the Group, for getting instant access to weather, news and the scheduler on the go. The Coolmart, the online application store, has owned more than 30,000 software and hot games already, which are all developed by the third-party company, and free for customers to download.

In the year of 2011, most of the Coolpad smartphones were shipped to the domestic telecommunications operators, benefiting from rising 3G users and attractive subsidies for the 3G smartphone buyers. As a domestic manufacturer, we understood the needs of the smartphone market better in China. We were also better positioned to grasp the customer buying experience and attract new customers. We have established tens of Coolpad direct stores, which were designed to simplify and enhance the presentation and marketing of the Company's products and related solutions. These stores expanded brand recognition of Coolpad and its products. Besides the domestic market, we also expanded the mid- and low-end smartphones to the overseas market in 2011, and cooperated with the local telecommunications operators.

CHAIRMAN'S STATEMENT

In 2011, we also focused on the improvement of general operation efficiency. Through taking a series of measures, we improved the administrative efficiency and internal operating process a lot during the reporting period. These measures did a great favor to the success of the Group, even though the intensifying competition and pressure during this year.



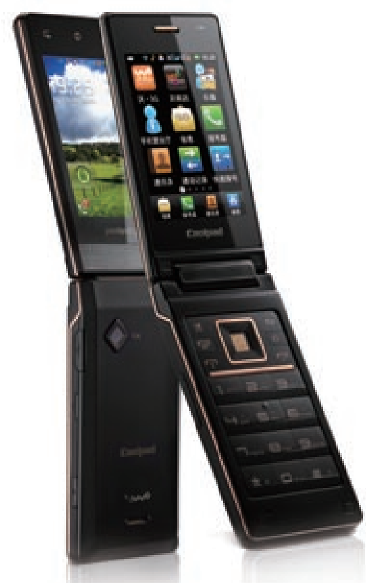
Coolpad 7500

SUSTAINABLE GROWTH AHEAD

In the year of 2012, we will keep the route of the mid- and low-end smartphone, and endeavor to improve the scale of the shipments. China's mobile industry is still expanding, especially the low-end smartphone market, growing more quickly in the future. We believe that the volume increase could provide significant economies of scale and bargaining power in terms of cost management. We will continue to put more resources on the construction of the R&D team and own capable engineers and smart managers ourselves, in order to keep the leadership in domestic 3G smartphone industry.

The second phase of the product capability project in Songshan Lake production base will be started in 2012, and could satisfy the needs of the full year large shipments volume. We will continue to enhance the general operation efficiency, manage the manufacturing costs. And we're ready for doing everything to face the challenges and the competition from the competitors. Along with the 3G smartphones more popular, there will be more opportunities, but the competition will also be intensifying in the massive market in the near future.

As most of our business will still be distributed in the domestic market, the revenue will continue to benefit from the domestic telecommunications operators' 3G subscriber promotion strategy, especially the mid- and low-end smartphone strategy. At the same time, the average selling price (hereinafter referred to as "ASP") and GP margin may be much uncertain and volatile. We expect the GP margin continues to be squeezed following the declining ASP in 2012, according to huge competition and more notion of the low-end smartphone. However, depending on the innovative technologies, the hard-working philosophy, the quick-responded capabilities to the market demands, and the differentiated product positioning, we will struggle to increase our sales volume, and get more market share from the smartphone market in 2012.



Coolpad 7500

THANKS

I would like to extend my sincere appreciation to our management team and thousands of staffs 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.

China Wireless Technologies Limited
Guo Deying
Executive Director, Chairman, and Chief Executive Officer

Hong Kong, 20 March 2012

創新未來，成就今天

INNOVATION IN THE FUTURE TODAY'S SUCCESS

Total Revenue HK$7,340.5 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		
	2011	2010	Variance (%)
Revenue			
3G Coolpad Smartphone	**7,258.6**	4,036.8	79.8
2G Coolpad Smartphone	**55.3**	522.1	(89.4)
Other Products	**26.6**	33.8	(21.3)
Total revenue	**7,340.5**	4,592.7	59.8
Cost of sales	**(6,259.1)**	(3,475.3)	80.1
Gross profit	**1,081.4**	1,117.4	(3.2)
Other income/gains	**319.8**	217.0	47.4
Selling & distribution costs	**(466.3)**	(322.7)	44.5
Administrative expenses	**(558.7)**	(443.4)	26.0
Other expenses	**(5.4)**	(13.9)	(61.2)
Financial costs	**(46.3)**	(9.2)	(403.3)
Share of losses of associates	**(0.2)**	(0.1)	100
Profit before tax	**324.3**	545.1	(40.5)
Income tax expenses	**(53.2)**	(64.8)	(17.9)
Profit for the year	**271.1**	480.3	(43.6)

MANAGEMENT DISCUSSION & ANALYSIS

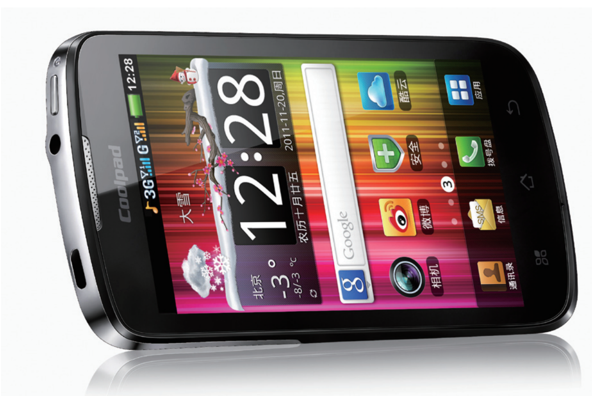
REVENUE ANALYSED BY PRODUCT TYPES

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

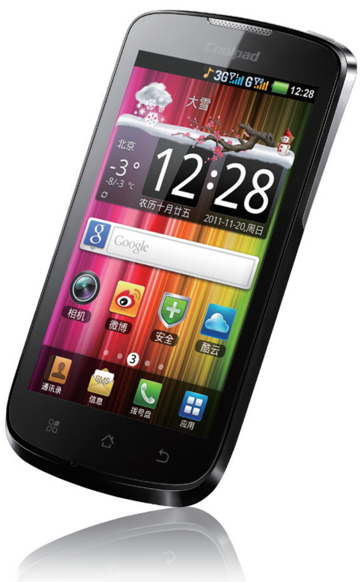
	Year ended 31 December			
	2011		2010	
	Revenues HK$ million	**% of revenue**	Revenue HK$ million	% of revenue
Revenue				
3G Coolpad smartphone	**7,258.6**	**98.9**	4,036.8	87.9
2G Coolpad smartphone	**55.3**	**0.7**	522.1	11.4
Others	**26.6**	**0.4**	33.8	0.7
Total	**7,340.5**	**100**	4,592.7	100

The Group recorded consolidated revenue for the year ended 31 December 2011 of HK$7,340.5 million, representing a growth of 59.8% as compared with HK$4,592.7 million for the year ended 31 December 2010. The substantial growth of the consolidated revenue in 2011 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 market in Mainland China during the year under review.

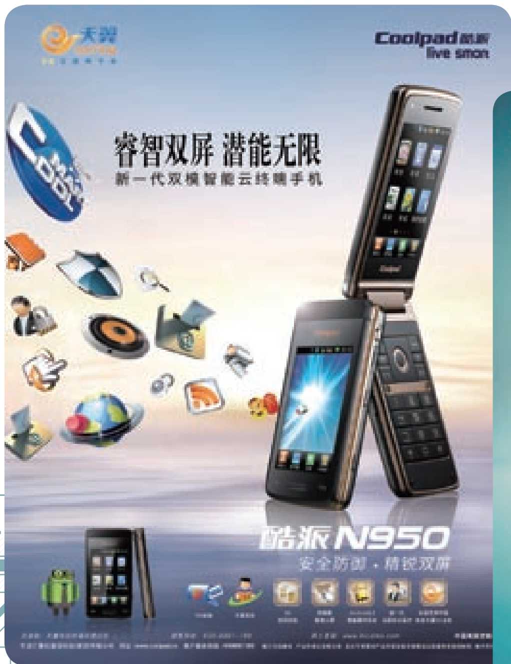
The revenue from 3G Coolpad smartphone increased by 79.8% to HK$7,258.6 million for the year ended 31 December 2011 as compared with HK$4,036.8 million for year ended 31 December 2010. The significant increase in revenue from the sales of 3G Coolpad smartphone was primarily attributable to the shift of the Group's product portfolio to the mid- and low-end smartphone and the successful launch of many better cost/performance 3G Coolpad smartphones for the three domestic telecommunications operators. Revenue contribution from this product type surged to 98.9% in 2011 from 87.9% in 2010. This demonstrated that the Group's product portfolio shifted to 3G smartphone type during the year under review. So far, the Group's Coolpad product has covered all range of 3G networks, including TD-SCDMA, CDMA2000 as well as WCDMA networks.

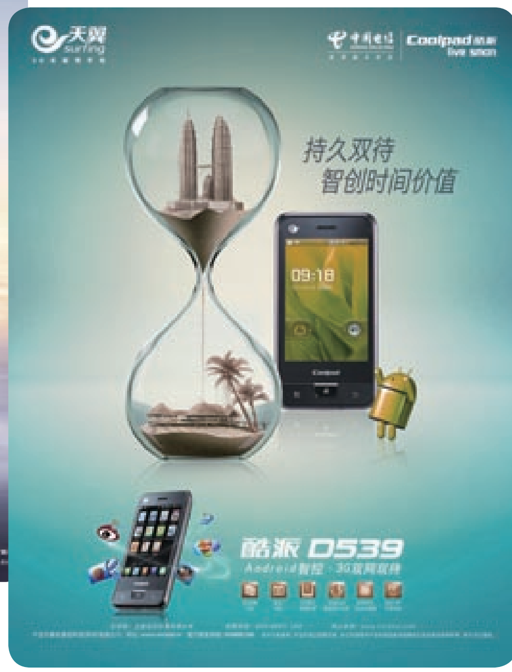


Coolpad 7260



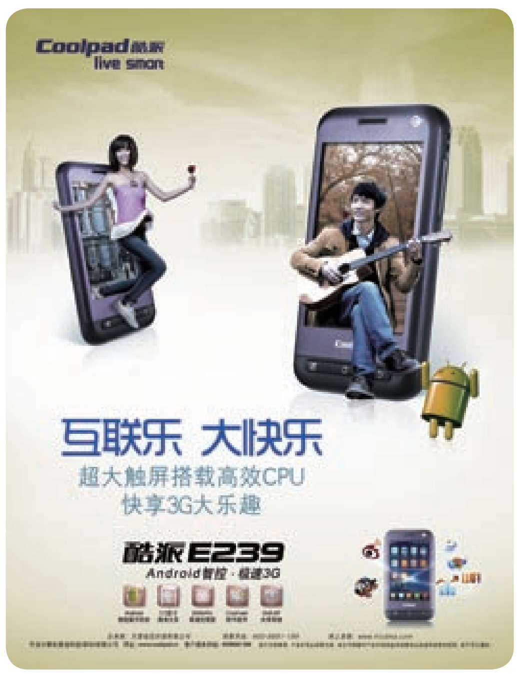
MANAGEMENT DISCUSSION & ANALYSIS

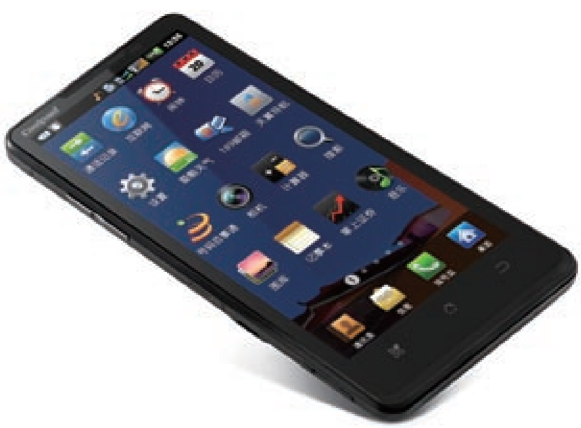




The revenue from the sales of 2G Coolpad smartphone decreased by HK$466.8 million to HK$55.3 million for the year ended 31 December 2011 as compared with HK$522.1 million for the year ended 31 December 2010. Revenue contribution from this product type dropped to 0.7% in 2011 from 11.4% in 2010, due primarily to a dramatic decline in sales volume of 2G Coolpad smartphone and the Group transferred all its R&D resources to 3G smartphone during the year under review.

The revenue from other products decreased by HK$7.2 million, or 21.3%, to HK$26.6 million for the year ended 31 December 2011 as compared with HK$33.8 million for the year ended 31 December 2010. The decrease in the revenue from other products during the year under review was mainly attributable to a decrease in the sales of Coolpad smartphone's accessories and others.





Coolpad 9900

MANAGEMENT DISCUSSION & ANALYSIS

GROSS PROFIT

	Year ended 31 December			
	2011		2010	
	Gross profit	GP Margin	Gross profit	GP Margin
Gross Profit	HK$ million	(%)	HK$ million	(%)
Total	**1,081.4**	**14.7**	1,117.4	24.3

The Group's overall gross profit for the year ended 31 December 2011 decreased to HK$1,081.4 million, representing a decrease of 3.2% as compared with HK$1,117.4 million for the year ended 31 December 2010. The Group's overall GP margin for the year ended 31 December 2011 significantly dropped to 14.7%, down 9.6 percentage as compared with 24.3% for the year ended 31 December 2010. The significant decline in GP margin was primarily attributable to the decrease of its overall Average Selling Price ("ASP") as a result of the Group's product mix shifted from high-end mobile market to mid- and low-end market where the Group faced severe competition and tightly compressed price.

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to approximately HK$319.8 million for the year ended 31 December 2011, representing an increase of 47.4% as compared with HK$217.0 million for the year ended 31 December 2010. This increase was mainly attributable to the increase of the Group's exchange gain, interest income and rental income in 2011.

SELLING AND DISTRIBUTION COSTS

	Year ended 31 December	
	2011	2010
Selling and distribution costs (HK$ million)	**466.3**	322.7
Selling and distribution costs/revenue (%)	**6.4**	7.0

Selling and distribution costs of the Group for the year ended 31 December 2011 increased to HK$466.3 million, representing an increase of approximately HK$143.6 million, or 44.5%, as compared with HK$322.7 million for the year ended 31 December 2010. The net increase of HK$143.6 million was primarily generated from increased expenditures for marketing, advertising and promotion expenses, and increased salaries of newly employed salesmen to support new product launches. As a percentage of total revenue, selling and distribution costs significantly decreased to 6.4% in 2011 from 7.0% in 2010. The net decrease of 0.6% as a percentage of total revenue primarily reflected the Group has controlled its marketing expenses efficiently and benefited from the economies of scale as sales volume increased.

MANAGEMENT DISCUSSION & ANALYSIS

ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2011	2010
Administrative expenses (HK$ million)	**558.7**	443.4
Administrative expenses/revenue (%)	**7.6**	9.7

Administrative expenses increased by 26.0% to HK$558.7 million for the year ended 31 December from HK$443.4 million for the year ended 31 December 2010. The net increase of HK$115.3 million was primarily generated from increased expenditures on R&D, and increased salaries of newly employed staff. As a percentage of total revenue, it dropped nearly 2.1% during the year under review as compared with 9.7% in the year of 2010, reflecting that the Group executed tight control over the administrative expenses.

INCOME TAX EXPENSE

For the year ended 31 December 2011, the Group's income tax expense amounted to HK$53.2 million (2010: HK$64.8 million). The decrease in the current year income tax expense was mainly attributable to the decrease of the Group's profit before tax.

NET PROFIT

For the year ended 31 December 2011, the Group recorded a net profit of HK$271.1 million, representing a decrease of HK$209.2 million, or 43.6%, as compared with HK$480.3 million for the year ended 31 December 2010. The reasons for the decrease in net profit were mainly due to: 1) the Group shifted the product mix from the high-end to the mid- and low-end smartphone during the year under review; and 2) the intensifying market competition has resulted in a drop in ASP in 2011.

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2011, 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 2011 amounted to HK$1,058.9 million (2010: HK$641.9 million).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities.

PLEDGED OF ASSETS

As at 31 December 2011, the following assets of the Group were used to secure certain bank borrowings of the Group: (i) investment properties of approximately HK$104 million (2010: HK$135 million); (ii) time deposits of approximately HK$325 million (2010: HK$71 million). As at 31 December 2011, the Group's time deposits of approximately HK$689.4 million were also used to secure bills payable (2010: HK$540.0 million).

MANAGEMENT DISCUSSION & ANALYSIS

At 31 December 2010, Group's certain buildings and leasehold land were pledged to certain banks to secure bank borrowings granted to the Group which had an aggregate carrying value at 31 December 2010 of approximately HK$41 million and HK$52 million, respectively. At 31 December 2010, the Group's certain bills receivable of HK$147 million was also pledged to secure the Group's bills payable.

BUSINESS REVIEW OF THE GROUP IN 2011

The Group shifted the product mix from the high-end smartphone to the mid- and low-end smartphone, and entered into the massive 3G smartphone market in 2011. Along with the domestic telecommunications operators started the lower 3G monthly package fees, and put more subsidies for the customers on buying 3G smartphone, the number of the net addition of the 3G users increased explosively in the year of 2011, and the massive 3G smartphone market was full of opportunities with challenges. The Group has benefited from this. The volume increase provided significant economies of scale and bargaining power in terms of cost management in the year of 2011.

The Group had a turnover of approximately HK$7,340.5 million, which increased by 59.8% from HK$4,592.7 million. The significant increase was largely due to higher promotional spending on the mid- and low-end smartphone market and was largely ascribed to the solid growth of 113.2% in the sales volume. The net profit for the year was approximately HK$271.1 million, which decreased by 43.6% from HK$480.3 million in 2010. The ASP for the year was HK$683.0, representing a drop of 25.0% from HK$911.0 in 2010. GP margin was 14.7% in 2011 and it was 24.3% in 2010, representing a drop of 9.6%. These drops were because the Group changed the product mix to the mid- and low-end smartphone and the competition from the mid- and low-end smartphone market has intensified in 2011.

In the year of 2011, the Group had successfully turned to the Android OS, which is an open source code smartphone operating system, and the Group redeveloped a lot of software features differentiated on the Coolpad Android smartphone, compared with the smartphones from the competitors. All of these Coolpad Android smartphone kept the Coolpad traditional gene, including the dual-mode dual-working feature, private model, three steps finding of the Contact, fast Chinese character identification, and so on. In the year of 2011, the Group had launched 30 new smartphones based on the differentiated Android OS, which covered from the high-end to the mid- and low-end smartphone. In the year of 2011, the Group released the 5-inch screen high-end smartphone, called Coolpad Magview I 9930, which is the dual-model smartphone for EVDO and GSM network working together, and the user experience was improved a lot. The Group has also released its flagship smartphone, named Coolpad Magview II 9900, which had a higher hardware spec, including the larger storage and touch panel size, the faster CPU, the thinner industry design.

In 2011, more and more star models with a huge volume of shipments emerged (such as E239 an entry-level 3G smartphone and was positioned to tap the younger consumer segment, D539 a long standby time smartphone, W706 the first Coolpad low-end WCDMA network smartphone). At the same time, except these star models, the Group launched a series of better cost/performance smartphones with more individual features (such as 5820 One-Key Weibo 3G Android smartphone optimized for mobile social networking, 5860 a 4-inch screen smartphone at a lower price, 8810 the online TV TD-SCDMA smartphone, 7260 the next generation high cost/performance WCDMA smartphone).

MANAGEMENT DISCUSSION & ANALYSIS

Most products of the Group in 2011 were shipped to the domestic telecommunications operators, benefiting from rising 3G users volume and attractive subsidies for the 3G smartphone buyers. As a domestic manufacturer, the Group understood the needs of the smartphone market better in China. The Group was also better positioned to control the customer buying experience and attract new customers. The Coolpad direct stores, which were set up by the Group, were designed to simplify and enhance the presentation and marketing of the Company's products and related solutions. These stores expanded brand recognition of Coolpad and its products.

The Group still insisted on developing the innovative technology, and emphasized the accumulative R&D capability in the year of 2011, especially after the operating system is mostly based on Android OS. The R&D department had completed the reconstruction in 2011, which helped the Group have a faster speed on the platform development. Once the platform of the Group developed faster, and the differentiated Android OS was more mature, the Group could release new smartphones quicker, and capture more market share because of the richer product line and differentiated products. The R&D investments also led us to develop and get more significant patents.

The Group had done a lot of work on how to improve the user experience, not only by the excellent software features Coolpad gene, but also by the Coolcloud service, and the popular Coolmart, which is an online application market owning more than 30,000 software and hot games. These software and games were developed by the third-party company, and all free for customers to download. As the smartphone market grows to the mobile internet gradually, the Group took the Coolcloud and the Coolmart as the strategy work in the long run. As of 31 December 2011, the Group had already released two versions of Coolcloud, which could help Coolpad users synchronize the ordinary data, such as the contact, SMS, phone record, and share the information, such as the meeting schedules. The Coolpad users could also enjoy the Coolmedia, Coolweather, and so on, provided by the Group, for getting instant access to weather, news and the scheduler on the go.

In the year of 2011, the Group also focuses on the improvement of general operation efficiency. The Group took a series of measures to improve its administrative efficiency and internal operating process during the reporting period. These measures did a great favor to the success of the Group, notwithstanding the intensifying competition and pressure during the year. Consolidated administrative expenses ratio was 7.6% in 2011, which attest to the efforts of the Group in enhancing operational efficiency.

PROSPECTS OF THE GROUP FOR 2012

In the year of 2012, the Group will keep the route of the mid- and low-end smartphone, and endeavor to improve the scale of the shipments. China's mobile industry is still expanding, especially the mid- and low-end smartphone market, growing more quickly in the future. The Group believes that the volume increase could provide significant economies of scale and bargaining power in terms of cost management.

As the differentiated Android OS including the Coolpad gene becomes more mature and stable, the Group will release more and more new models based on it in 2012. The product line which continues to cover the smartphone from the high-end to the low-end will be richer, compared with that in the year of 2011. Most of these new models will be the mid- and low-end smartphones, as the increase momentum of such kind of smartphone keeps strong. In 2012, the user experience of the mid- and low-end smartphone will be improved a lot, and the cost/performance of these smartphones will be better, as the Group is going to improve the hardware spec of the smartphone. So these smartphones will be more attractive to the customers.

MANAGEMENT DISCUSSION & ANALYSIS

After the R&D department has been reconstructed in 2011, its efficiency became better and competitive power became stronger. So the Group will be more competitive in the R&D capability of smartphone field. The Group will continue to put more resources on the construction of the R&D team and have capable engineers and smart managers itself, in order to keep the leadership in domestic 3G smartphone industry. In the year 2012, the differentiated Android platform will still be the main point, but the Group will also test other excellent operating systems to provide more choices for the customers.

The Group will keep the strong growth in the mid- and low-end smartphone market, and cooperate with the domestic telecommunications operators in 2012. The domestic market will still be the main market of the Group. The Group is also going to train and improve the skills and the capability of the salesmen, who will understand the demands of the customers and the telecommunications operators more clearly and quickly. More and more flag-ship stores will be set up in the first-tier cities to improve the brand of Coolpad in 2012. The Group will pay more attentions and resources on the after sales service, in order to let the Coolpad customers enjoy these services more easily while using the smartphones.

The Coolcloud, the platform of Coolpad based on the cloud computing and storage, will still be the long-term development strategy of the Group, and provide more excellent services for Coolpad users in 2012. The Group has already released the second version of Coolcloud in 2011, which could help the users share the schedules each other, synchronize the data of contacts, SMS, phone records, and so on. It will be more convenient for Coolpad users transferring the private data, once they want to change a smartphone. The Group is going to cooperate with the governments, and construct the wireless city based on Coolcloud, which would provide many special services. The Coolmart, providing tens of thousands of hot games and software developed by the third-party company to Coolpad users to download directly, will be strengthened and will be added more applications in 2012.

The second phase of the product capability project in Songshan Lake production base will be started in 2012, and could satisfy the most needs of the full year larger shipments volume. The Group will continue to enhance the general operation efficiency, and manage the manufacturing costs. And the Group gets ready for doing everything to face the challenges and the competition from the competitors. Along with the 3G smartphones becoming more popular, there will be more opportunities, but the competition will also be intensifying in the massive market in the near future. As most business of the Group will still be distributed in the domestic market, its revenue will continue to benefit from the domestic telecommunications operators' 3G subscriber promotion strategy, especially the mid- and low-end smartphone strategy. At the same time, the ASP and the GP margin will be much uncertain and volatile. The Group expects its GP margin continues to be squeezed following the declining ASP in 2012, according to huge competition and more notion of mid- and low-end smartphone. However, depending on the innovative technologies, the hard-working philosophy, the quick-responded capabilities to the market demands, and the differentiated product positioning, the Group will struggle to increase the sales volume, and get more market share from the smartphone market in 2012.

CORPORATE GOVERNANCE REPORT

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

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

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

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited(the "Stock Exchange") throughout the year ended 31 December 2011, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

BOARD OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board currently comprises nine directors, four of whom are executive directors, one is non-executive 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. In addition, the Board is of the view that, in view of the current scale of operations of the Group, the separation of the roles of the chairman and chief executive officer of the Company may hinder administrative efficiency and is neither suitable to the Group nor in the interests of the Company's shareholders as a whole.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDS")

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

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

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

BOARD OPERATION

During the year ended 31 December 2011, the Board held four meetings. Attendance of individual directors at the Board meetings in 2011 is as follows:

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

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

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

The Remuneration Committee is made up of all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Dr. HUANG Dazhan, Mr. YANG Xianzu and Mr. XIE Weixin.

The Remuneration Committee had two meetings in 2011 which were attended by all the members of the Remuneration Committee, which were 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.

CORPORATE GOVERNANCE REPORT

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all relevant persons as defined in the Model Code, including all the Directors, all other employees of the Company, and 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 2011, the Audit Committee held four meetings. The attendance record of each member of the Audit Committee is set out below:

Name	**Number of meetings attended**
Mr. CHAN King Chung *(Chairman)*	4/4
Dr. HUANG Dazhan	4/4
Mr. YANG Xianzu	4/4
Mr. XIE Weixin	4/4

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

ACCOUNTABILITY AND INTERNAL CONTROL

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

A Nomination Committee was established during the year of 2012 which comprises one executive director and two independent nonexecutive directors, namely Mr. GUO Deying (the Chairman of the Committee), Mr. YANG Xianzu and Mr. XIE Weixin as members. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors and senior management, making recommendations to the Board on the appointment and succession planning of directors and senior management, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship and senior management by making reference to the skills, experience, professional knowledge, personal integrity and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

EXTERNAL AUDITORS

Ernst & Young has been appointed as the External Auditors of the Company for the year under review. An amount of approximately HK$3.1 million was charged by Ernst & Young for its audit services provided to the Group in 2011 (2010: HK$2.9 million). The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditors' Report" on page 38 of this report.

COMMUNICATION WITH SHAREHOLDERS

The Company recognizes the importance of good communications with all shareholders and investors. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Company provides information relating to the Company and its business in its annual and half-yearly report and also disseminates such information electronically through its website at www.chinawireless.cn 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 47, 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 19 years of experience in the wireless communications industry. Mr. GUO received a master's degree in engineering from Shanghai Jiao Tong University (上海交通大學). In July 2008, Mr. GUO was awarded Mayor Award of Shenzhen (深圳市長獎) by the Shenzhen Municipal Government. Mr. GUO is a member of Shenzhen Committee of Chinese People's Political Consultative Conference. Mr. GUO is the spouse of Ms. YANG Xiao, a non-executive Director.

Mr. JIANG Chao

Mr. JIANG Chao, aged 41, 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 19 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 is a member of Futian Committee of Chinese People's Political Consultative Conference. Mr. JIANG obtained a bachelor's degree in economics from Sun Yat-Sen University in 1991.

Mr. LI Bin

Mr. LI Bin, aged 41, 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 13 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 39, 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 13 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.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Ms. YANG Xiao

Ms. YANG Xiao, aged 43, 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 49, 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 more than 20 years of experience in corporate governance, management and financial controlling.

Dr. HUANG Dazhan

Dr. HUANG Dazhan, aged 54, 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 70, 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 72, 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 39 years of experience in the telecommunications industry in China. Mr. YANG has extensive knowledge on telecommunications operations and control.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LI Liuqun

Mr. LI Liuqun, aged 49, is a deputy general manager of the Group and is responsible for overseas marketing sales functions. He has about 24 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 49, is a deputy general manager of the Group and is responsible for the human resources and administration functions. Mr. ZHANG has 22 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 48, 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 23 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 2011.

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 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 122.

An interim dividend of HK1 cent per ordinary share was paid on 29 September 2011.

The Directors recommend the payment of a final dividend of HK2 cents per ordinary share for the year 2011 to shareholders as shown on the register of members on 31 May 2012. 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.

CLOSURE OF REGISTER OF MEMBERS

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, which will be held on Wednesday, 23 May 2012. For the purpose of determining shareholders' entitlement to attend and vote at the said annual general meeting, the register of members of the Company will be closed from 18 May 2012 to 23 May 2012 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the said annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 17 May 2012.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 29 May 2012 to 31 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 28 May 2012. The final dividend will be paid on or about 14 June 2012 to the shareholders whose names appear on the register of members at the close of business on 31 May 2012.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

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

	Year ended 31 December				
	2011*	2010*	2009*	2008*	2007*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**7,340,495**	4,592,699	2,604,865	1,007,135	1,277,663
Profit/(loss) before tax	**324,297**	545,101	263,579	(64,307)	167,520
Tax	**(53,228)**	(64,836)	(23,574)	(11,769)	–
Profit/(loss) for the year	**271,069**	480,265	240,005	(76,076)	167,520
Attributable to owners of the Company	**271,364**	480,265	240,005	(76,076)	167,520

	As at 31 December				
	2011*	2010*	2009*	2008*	2007*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**1,151,664**	951,550	831,430	722,360	432,000
Current assets	**6,379,541**	3,301,409	1,418,416	862,915	812,149
Non-current liabilities	**143,212**	180,318	245,096	225,480	91,083
Current liabilities	**5,198,303**	2,652,149	1,125,624	718,696	491,716
Net assets	**2,189,690**	1,420,492	879,126	641,099	661,350

* extracted from the published audited financial statements

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

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.

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

During the year ended 31 December 2011, the Group had placed an aggregate of 150,000,000 shares at HK$4.55 per share. During the year ended 31 December 2011, the Company repurchased a total of 115,212,000 of its own ordinary shares on the Stock Exchange at a net aggregate consideration of approximately HK$190,264,000. All the repurchased shares were cancelled by the Company upon such repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase was charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity. The Company considered that it is the best way of enhancing shareholder value and that it is in the best interest of the shareholders to return a substantial part of the surplus funds to them.

Details of the repurchases by the Company on the Stock Exchange during the year ended 31 December 2011 were as follows:

	Number of Shares repurchased	**Price per share**		**Total price paid**
		Highest	**Lowest**	
		HK$	HK$	HK$'000
May 2011	15,000,000	1.98	1.82	28,832
June 2011	52,856,000	1.93	1.53	91,063
July 2011	14,100,000	1.80	1.59	23,916
August 2011	22,600,000	1.54	1.32	31,458
September 2011	10,656,000	1.43	1.34	14,995
	115,212,000			190,264

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 36 to the financial statements and in the consolidated Statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$640,975,000. The Board recommended a final dividend proposal of HK2 cents per ordinary share for the year 2011. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$597,970,000 as at 31 December 2011, 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 66.1% of the total sales for the year and sales to the largest customer included therein amounted to 21.2%. Purchases from the Group's five largest suppliers accounted for approximately 36.8% of the total purchases for the year ended 31 December 2011 and purchases from the largest supplier included therein amounted to 12.4%.

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 of the Company 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

REPORT OF THE DIRECTORS

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, Mr. GUO Deying, Mr. LI Wang and Mr. LI Bin 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 to 25 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. GUO Deying and Mr. JIANG Chao, executive Directors, has entered into a service agreement with the Company dated 21 November 2011 for a term of three years commencing from 21 November 2011.

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 2011. The remaining independent non-executive Directors have entered into service agreements with the Company for a term of one year commencing from 21 November 2011.

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.

REPORT OF THE DIRECTORS

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 25 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 2011, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (the "Model Code"), for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules were as follows:

LONG POSITIONS IN SHARES OF THE COMPANY:

Name of director	*Notes*	Directly Beneficially Owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a trust	Share Option	Total	Approximate percentage of the Company's issued share capital
Mr. GUO Deying	*1 & 2*	–	831,171,248	12,028,000	–	831,171,248	–	843,199,248	39.27
Mr. JIANG Chao	*3*	–	–	–	12,028,000	–	–	12,028,000	0.56
Mr. LI Bin	*4*	–	–	–	–	–	7,348,000	7,348,000	0.34
Mr. LI Wang	*4*	5,020,000	–	–	–	–	5,800,000	10,820,000	0.50
Ms. YANG Xiao	*1 & 2*	–	831,171,248	12,028,000	–	–	–	843,199,248	39.27
Mr. CHAN King Chung	*4*	96,000	–	–	–	–	96,000	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

REPORT OF THE DIRECTORS

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

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 12,028,000 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 12,028,000 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2011, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

LONG POSITIONS IN SHARES OF THE COMPANY:

Name	*Notes*	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited ("Data Dreamland")	*1*	831,171,248	Beneficial owner	831,171,248	38.71
Barrie Bay Limited ("Barrie Bay")	*2*	831,171,248	Interest of controlled corporation	831,171,248	38.71
HSBC International Trustee Limited ("HSBC Trustee")	*2*	831,171,248	Trustee	831,171,248	38.71

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 of which 9,999 units are held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Unit Trust and the remaining one unit is held by Ms. YANG Hua. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. GUO and Ms. YANG and the discretionary objects of which include the minor children of Mr. GUO and Ms. YANG.

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

Save as disclosed above, as at 31 December 2011, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 34 to the financial statements.

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

	Number of share options								
Name or category of participant	At 1 January 2011	Grant during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 31 December 2011	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	684,000	–	196,000	488,000	–	–	27-07-06	27-07-07 to 26-07-11	0.4615
In aggregate – granted on 18 September 2007	10,176,000	–	1,230,000	–	360,000	8,586,000	18-09-07	18-09-08 to 17-09-12	1.415
In aggregate – granted on 18 September 2007	3,216,000	–	–	–	384,000	2,832,000	18-09-07	18-09-10 to 17-09-14	1.415
In aggregate – granted on 20 May 2008	10,156,000	–	1,852,000	–	748,000	7,556,000	20-05-08	20-05-09 to 19-05-13	0.674
In aggregate – granted on 20 May 2008	3,856,000	–	276,000	–	–	3,580,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 20 May 2008	11,928,000	–	–	–	672,000	11,256,000	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 Feb 2009	4,392,000	–	700,000	–	204,000	3,488,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 Feb 2009	8,464,000	–	5,007,000	–	1,120,000	2,337,000	27-02-09	27-02-10 to 26-02-12	0.397
In aggregate – granted on 27 Feb 2009	852,000	–	648,000	12,000	192,000	–	27-02-09	27-02-10 to 26-02-11	0.397
In aggregate – granted on 27 Feb 2009	800,000	–	–	–	800,000	–	27-02-09	27-02-13 to 26-02-17	0.397
In aggregate – granted on 30 Jun 2010	16,904,000	–	–	–	–	16,904,000	28-06-10	28-06-11 to 27-06-15	3.24
In aggregate – granted on 30 Jun 2010	19,704,000	–	–	–	–	19,704,000	28-06-10	28-06-12 to 27-06-16	3.24
In aggregate – granted on 30 Jun 2010	15,772,000	–	–	–	–	15,772,000	28-06-10	28-06-13 to 27-06-17	3.24
In aggregate – granted on 30 Jun 2010	9,500,000	–	–	–	–	9,500,000	28-06-10	28-06-14 to 27-06-18	3.24
In aggregate – granted on 12 July 2011	–	50,344,000	–	–	–	50,344,000	12-07-11	12-07-12 to 11-07-16	1.678
In aggregate – granted on 12 July 2011	–	780,000	–	–	–	780,000	12-07-11	12-07-14 to 11-07-18	1.678
Directors									
In aggregate – granted on 27 July 2006	–	–	–	–	–	–	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	–	252,000	–	–	2,748,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 27 Feb 2009	720,000	–	96,000	–	–	624,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 Feb 2009	4,000,000	–	–	–	–	4,000,000	27-02-09	27-02-13 to 26-02-17	0.397
In aggregate – granted on 30 Jun 2010	4,000,000	–	–	–	–	4,000,000	28-06-10	28-06-14 to 27-06-18	3.24
In aggregate – granted on 12 July 2011	–	1,400,000	–	–	–	1,400,000	12-07-11	12-07-12 to 11-07-16	1.678
Subtotal	132,612,000	52,524,000	10,257,000	500,000	4,480,000	169,899,000			
Business consultants	8,000,000	–	–	–	8,000,000	–	18-09-07	18-09-10 to 17-09-14	1.415
Total	140,612,000	52,524,000	10,257,000	500,000	12,480,000	169,899,000			

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.

REPORT OF THE DIRECTORS

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$45,079,000 using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK$
Employees in aggregate	52,524,000	45,079,000

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 2011.

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

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. The Group entered into forward currency contracts to minimise its transactional currency exposures.

EMPLOYEES AND REMUNERATION POLICY

During the year ended 31 December 2011, the staff costs amounted to HK$526.3 million(2010: 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 2011.

MATERIAL ACQUISITIONS AND DISPOSAL

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

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

20 March 2012, Hong Kong

INDEPENDENT AUDITORS' REPORT

Ernst & Young
安 永

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 40 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2011 and 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 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 2011, 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

22nd Floor, CITIC Tower
1 Tim Mei Avenue,
Central
Hong Kong

20 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**7,340,495**	4,592,699
Cost of sales		**(6,259,135)**	(3,475,274)
Gross profit		**1,081,360**	1,117,425
Other income and gains	5	**319,758**	216,974
Selling and distribution costs		**(466,255)**	(322,691)
Administrative expenses		**(558,702)**	(443,444)
Other expenses		**(5,345)**	(13,823)
Finance costs	7	**(46,303)**	(9,245)
Share of losses of associates		**(216)**	(95)
PROFIT BEFORE TAX	6	**324,297**	545,101
Income tax expense	10	**(53,228)**	(64,836)
PROFIT FOR THE YEAR		**271,069**	480,265
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		**40,855**	18,631
Income tax effect	32	**(6,531)**	(3,670)
		34,324	14,961
Exchange differences on translation of foreign operations		**77,826**	36,398
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**112,150**	51,359
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**383,219**	531,624
PROFIT FOR THE YEAR			
Attributable to:			
Owners of the Company	11	**271,364**	480,265
Non-controlling interests		**(295)**	–
		271,069	480,265

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Note	**2011 HK$'000**	2010 HK$'000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
Attributable to:			
Owners of the Company		**383,514**	531,624
Non-controlling interests		**(295)**	–
		383,219	531,624
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*13*		
Basic		**12.39 cents**	22.98 cents
Diluted		**12.15 cents**	22.22 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	**2011 HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**527,097**	417,237
Investment properties	*15*	**334,952**	304,456
Prepaid land lease payments	*16*	**110,222**	67,321
Intangible assets	*17*	**112,491**	94,294
Investments in associates	*19*	**34,523**	196
Available-for-sale investment	*20*	**11,102**	–
Other non-current assets	*24*	**8,374**	46,607
Deferred tax assets	*32*	**12,903**	21,439
Total non-current assets		**1,151,664**	951,550
CURRENT ASSETS			
Inventories	*21*	**1,668,545**	835,178
Trade receivables	*22*	**1,571,749**	222,013
Bills receivable	*23*	**685,276**	697,238
Prepayments, deposits and other receivables	*24*	**314,452**	176,382
Due from directors	*25*	**655**	580
Pledged time deposits	*26*	**1,080,007**	728,123
Cash and cash equivalents	*26*	**1,058,857**	641,895
Total current assets		**6,379,541**	3,301,409
CURRENT LIABILITIES			
Trade payables	*27*	**1,377,469**	566,553
Bills payable	*28*	**1,615,658**	689,447
Other payables and accruals	*29*	**981,719**	725,755
Derivative financial instruments	*30*	**8,377**	10,696
Interest-bearing bank borrowings	*31*	**1,190,094**	606,541
Tax payable		**24,986**	53,157
Total current liabilities		**5,198,303**	2,652,149
NET CURRENT ASSETS		**1,181,238**	649,260
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,332,902**	1,600,810

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,332,902**	1,600,810
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*31*	**67,843**	132,640
Deferred tax liabilities	*32*	**60,838**	42,625
Other non-current liabilities		**14,531**	5,053
Total non-current liabilities		**143,212**	180,318
Net assets		**2,189,690**	1,420,492
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*33*	**21,474**	21,024
Shares held for the Share Award Plan	*35*	**(321)**	(321)
Reserves		**2,121,007**	1,283,187
Proposed final dividend	*12*	**43,005**	112,717
		2,185,165	1,416,607
Non-controlling interests		**4,525**	3,885
Total equity		**2,189,690**	1,420,492

GUO Deying
Director

JIANG Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		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 and 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	34	–	–	–	–	–	–	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		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	Capital redemption 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 2011		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
Profit for the year		–	–	–	–	–	–	–	–	–	–	271,364	–	271,364	(295)	271,069
Other comprehensive income for the year:																
Gains on property revaluation, net of tax		–	–	–	–	34,324	–	–	–	–	–	–	–	34,324	–	34,324
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	77,826	–	–	77,826	–	77,826
Total comprehensive income for the year		–	–	–	–	34,324	–	–	–	–	77,826	271,364	–	383,514	(295)	383,219
Final 2010 dividend declared		–	–	–	–	–	–	–	–	–	–	–	(112,959)	(112,959)	–	(112,959)
Difference between the proposed final 2010 dividend and the actual dividend paid		–	–	–	–	–	–	–	–	–	–	(242)	242	–	–	–
Issue of shares	33	1,500	667,611	–	–	–	–	–	–	–	–	–	–	669,111	–	669,111
Share option exercised	33	102	5,894	–	–	–	–	–	–	–	–	–	–	5,996	–	5,996
Transfer from share option reserve	33	–	2,579	–	–	–	–	(2,579)	–	–	–	–	–	–	–	–
Repurchase of shares	33	(1,152)	(189,112)	–	–	–	–	–	–	1,152	–	(1,152)	–	(190,264)	–	(190,264)
Equity-settled share option arrangements	34	–	–	–	–	–	–	34,611	–	–	–	–	–	34,611	–	34,611
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	(4,479)	–	–	–	4,479	–	–	–	–
Capital contribution by non-controlling equity holder		–	–	–	–	–	–	–	–	–	–	–	–	–	935	935
Appropriation to statutory reserve	36 (a)	–	–	–	–	–	5,926	–	–	–	–	(5,926)	–	–	–	–
Interim 2011 dividend	12	–	–	–	–	–	–	–	–	–	–	(21,451)	–	(21,451)	–	(21,451)
Proposed final 2011 dividend	12	–	(43,005)	–	–	–	–	–	–	–	–	–	43,005	–	–	–
At 31 December 2011		21,474	518,756*	(321)	390*	105,491*	47,748*	65,484*	41,304*	1,152*	210,783*	1,129,899*	43,005	2,185,165	4,525	2,189,690

* These reserve accounts comprise the consolidated reserves of HK$2,121,007,000 (2010: HK$1,283,187,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**324,297**	545,101
Adjustments for:			
Bank interest income	5	**(31,178)**	(10,609)
Finance costs	7	**46,303**	9,245
Share of losses of associates		**216**	95
Depreciation	6	**40,380**	24,397
Changes in fair value of investment properties	6	**(15,024)**	(9,072)
Amortisation of patents and licences	6	**8,020**	9,690
Amortisation of product development costs	6	**24,876**	33,240
Recognition of prepaid land lease payments	6	**1,934**	1,485
Loss on disposal of items of property, plant and equipment	6	**661**	774
Impairment of trade receivables	6	**922**	909
Provision for inventories	6	**24,227**	15,591
Equity-settled share award plan expense		**–**	44,782
Equity-settled share option expense		**34,611**	19,537
Fair value gains of derivative instruments – transactions not qualifying as hedges	6	**(2,319)**	10,696
		457,926	695,861
Increase in inventories		**(792,983)**	(349,184)
(Increase)/decrease in trade receivables		**(1,308,347)**	66,451
(Increase)/decrease in bills receivable		**23,755**	(652,757)
Increase in prepayments, deposits and other receivables		**(126,072)**	(57,781)
Increase in amounts due from directors		**(46)**	(41)
(Increase)/decrease in other non-current assets		**(4,203)**	269
Increase in trade payables		**764,753**	206,708
Increase in bills payable		**871,423**	561,527
Increase in other payables and accruals		**196,682**	233,576
Increase in other non-current liabilities		**9,013**	488
Cash generated from operations		**91,901**	705,117
Tax paid		**(62,443)**	(54,093)
Net cash flows from operating activities		**29,458**	651,024

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Net cash flows from operating activities		**29,458**	651,024
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		**31,178**	10,609
Purchases of items of property, plant and equipment		**(77,854)**	(64,979)
Proceeds from disposal of items of property, plant and equipment		**3,159**	1,793
Additions to product development costs	*17*	**(43,799)**	(16,408)
Additions to patents and licences	*17*	**(3,412)**	(4,998)
Addition to prepaid land lease payments		**(1,001)**	(22,519)
Proceeds from disposal of an associate		**–**	8,603
Investments in associates		**(33,720)**	(294)
Increase in pledged time deposits		**(315,999)**	(524,419)
Purchase of an available-for-sale investment		**(10,839)**	–
Net cash flows used in investing activities		**(452,287)**	(612,612)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	*33(e)*	**669,111**	–
Proceeds from share option exercised	*33(a)-(d)*	**5,996**	25,168
New bank loans		**2,302,934**	549,122
Repayment of bank loans		**(1,811,518)**	(105,728)
Repurchase of shares	*33(f)*	**(190,264)**	–
Capital contribution by non-controlling equity holder		**935**	–
Decrease in an amount due to an associate		**–**	(7,492)
Interest paid		**(38,238)**	(20,301)
Dividends paid		**(134,410)**	(83,630)
Net cash flows from financing activities		**804,546**	357,139
NET INCREASE IN CASH AND CASH EQUIVALENTS		**381,717**	395,551
Cash and cash equivalents at beginning of year		**641,895**	251,401
Effect of foreign exchange rate changes, net		**35,245**	(5,057)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,058,857**	641,895
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*26*	**1,058,857**	641,895

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**153**	246
Investments in subsidiaries	*18*	**114,973**	82,106
Total non-current assets		**115,126**	82,352
CURRENT ASSETS			
Due from subsidiaries	*18*	**229,709**	202,204
Trade receivables	*22*	**3,925**	–
Bills receivable	*23*	**403,145**	486,100
Deposits and other receivables	*24*	**12,280**	1,747
Pledged time deposits	*26*	**283,705**	26,128
Cash and cash equivalents	*26*	**127,922**	68,382
Total current assets		**1,060,686**	784,561
CURRENT LIABILITIES			
Trade payables	*27*	**–**	667
Other payables and accruals	*29*	**13,650**	6,576
Derivative financial instruments	*30*	**7,490**	10,696
Interest-bearing bank borrowings	*31*	**384,216**	475,492
Total current liabilities		**405,356**	493,431
NET CURRENT ASSETS		**655,330**	291,130
Net assets		**770,456**	373,482
EQUITY			
Issued capital	*33*	**21,474**	21,024
Shares held for the Share Award Plan	*35*	**(321)**	(321)
Reserves	*36(b)*	**706,298**	240,062
Proposed final dividend	*12*	**43,005**	112,717
Total equity		**770,456**	373,482

GUO Deying
Director

JIANG Chao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 sale 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 2011. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 39 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) *Improvements to HKFRSs 2010* issued in May 2010 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 financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 3 *Business Combinations:* The amendment clarifies that amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 Amendments	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurements*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets*, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

For other new and revised HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

RELATED PARTIES

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (iv) the entity is controlled or jointly controlled by a person identified in (a); and
- (v) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 depreciates them accordingly.

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.

Construction in progress mainly 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT PROPERTIES

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

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

OPERATING LEASES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 available-for-sale investment, trade and bills receivables, deposits and other receivables, due from directors, pledged time deposits and cash and cash equivalents.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

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 profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investment

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT AND OTHER FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial investment (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investment

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 plus, in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

The subsequent 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 profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

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 profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

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 profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

- when 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

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.

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 instalments.

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, 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 (note 34) and a share award plan (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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

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

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

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

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BORROWING COSTS

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

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of share premium 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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

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 rates 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

JUDGEMENTS (CONTINUED)

Deferred tax liabilities

Deferred income tax liabilities have not been established for 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 income tax liability would have been increased by the same amount of approximately HK$116,301,000 (2010: HK$89,659,000).

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 described 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 2011, the best estimate of the carrying amount of provision for product warranties was HK$41,118,000 (2010: HK$20,477,000) (note 29).

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 2011, the best estimate of the carrying amount of capitalised product development costs was HK$93,201,000 (2010: HK$71,342,000) (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 2011, the Group had inventories that were measured at net realisable value (where lower than cost) of HK$22,536,000 (2010: HK$8,899,000).

Revenue recognition

The Group recorded reductions to revenue for price protection, a special pricing arrangement, which is calculated based on estimates of future price reductions and inventory quantities agreed with customers at the dates of the price adjustments. Possible changes in these estimates could result in revisions to sales in future periods.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of trade receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing 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 2011, the provision recognised for trade receivables was HK$1,662,000 (2010: HK$2,056,000) (note 22).

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 2011 was HK$320,802,000 (2010: HK$75,938,000). 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, an available-for-sale investment and investments in associates as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2011

	Mobile phone HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	7,340,495	–	7,340,495
Other revenue and gains	242,221	46,359	288,580
Total	7,582,716	46,359	7,629,075
Segment results	302,075	42,908	344,983
Reconciliation:			
Interest income			31,178
Finance costs			(46,303)
Share of losses of associates			(216)
Corporate and other unallocated expenses			(5,345)
Profit before tax			324,297
Segment assets	4,981,549	352,264	5,333,813
Reconciliation:			
Investments in associates			34,523
Other unallocated assets			2,162,869
Total assets			7,531,205
Segment liabilities	3,982,247	7,130	3,989,377
Reconciliation:			
Other unallocated liabilities			1,352,138
Total liabilities			5,341,515
Other segment information:			
Impairment of trade receivables	922	–	922
Provision for inventories	24,227	–	24,227
Fair value gains on investment properties	–	15,024	15,024
Product warranty provision	62,495	–	62,495
Depreciation and amortisation	74,930	280	75,210
Capital expenditure*	180,729	–	180,729

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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 and gains	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
Finance costs			(9,245)
Share of loss of an associate			(95)
Corporate and other unallocated expenses			(13,823)
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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	2011 **HK$'000**	2010 HK$'000
Mainland China	**7,285,899**	4,512,870
Overseas	**54,596**	79,829
	7,340,495	4,592,699

(b) *Non-current assets*

	2011 **HK$'000**	2010 HK$'000
Mainland China	**1,138,608**	929,865
Overseas	**153**	246
	1,138,761	930,111

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	Operating segment	**2011** **HK$'000**	2010 HK$'000
Customer A	Mobile phone	**1,555,006**	*
Customer B	Mobile phone	**1,260,791**	*
Customer C	Mobile phone	**937,099**	582,765
Customer D	Mobile phone	*	844,624
Customer E	Mobile phone	*	674,329

* Less than 10% of the Group's revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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:

	2011 **HK$'000**	2010 HK$'000
Revenue		
Sale of mobile phones	**7,340,495**	4,592,699
Other income		
Bank interest income	**31,178**	10,609
Government grants and subsidies*	**134,373**	144,578
Gross rental income	**31,335**	22,331
Exchange gains, net		
Including: Exchange gains on derivative financial instruments	**47,859**	10,569
Others	**59,989**	19,815
	304,734	207,902
Gains		
Fair value gains on investment properties	**15,024**	9,072
	319,758	216,974

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

6. PROFIT BEFORE TAX

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

	Notes	2011 HK$'000	2010 HK$'000
Cost of inventories sold		6,234,908	3,459,683
Depreciation	14	40,380	24,397
Amortisation of patents and licences*	17	8,020	9,690
Amortisation of prepaid land lease payments	16	1,934	1,485
Research and development costs:			
Product development costs amortised*	17	24,876	33,240
Current year expenditure*		217,926	147,631
		242,802	180,871
Operating lease rental		19,018	11,042
Auditors' remuneration		3,103	2,915
Staff costs (excluding directors' remuneration *(note 8)*):			
Salaries and wages		406,567	281,250
Staff welfare expenses		33,898	26,629
Pension scheme contributions		47,156	30,943
Equity-settled share option expense		32,867	18,444
Equity-settled share award plan expense		–	19,462
		520,488	376,728
Impairment of trade receivables	22	922	909
Provision for inventories		24,227	15,591
Product warranty provision	29	62,495	31,649
Loss on disposal of items of property, plant and equipment		661	774
Foreign exchange differences, net		(47,859)	(10,569)
Rental income on investment properties less direct operating expenses of HK$3,451,000 (2010: HK$1,476,000)		(27,884)	(20,855)
Changes in fair value of investment properties	15	(15,024)	(9,072)
Changes in fair value of derivative financial instruments		(2,319)	10,696

* The amortisation of patents and licences, amortisation of product development costs and the current year research and development expenditure are included in "Administrative expenses" in the profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

7. FINANCE COSTS

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on:		
Bank loans	**39,252**	19,601
Discounted bills receivable	**7,051**	700
	46,303	20,301
Less: Interest capitalised	**–**	(11,056)
	46,303	9,245

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	
	2011	2010
	HK$'000	HK$'000
Fees	**530**	516
Other emoluments:		
Salaries, allowances and benefits in kind	**12,630**	9,861
Performance related bonuses	**336**	551
Equity-settled share option expense	**1,744**	1,093
Equity-settled share award plan expense	**–**	25,320
Pension scheme contributions	**95**	65
	14,805	36,890
	15,335	37,406

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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. In last 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 amounts included in the financial statements for the current and prior years are 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
2011			
Dr. HUANG Dazhan	**120**	**5**	**125**
Mr. XIE Weixin	**145**	**5**	**150**
Mr. CHAN King Chung	**120**	**6**	**126**
Mr. YANG Xianzu	**145**	**6**	**151**
	530	**22**	**552**
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

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) EXECUTIVE DIRECTORS AND A NON-EXECUTIVE DIRECTOR

	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
2011					
Executive directors:					
Mr. GUO Deying	**5,505**	**136**	**–**	**19**	**5,660**
Mr. JIANG Chao	**2,471**	**26**	**–**	**19**	**2,516**
Mr. LI Wang	**1,748**	**49**	**819**	**19**	**2,635**
Mr. LI Bin	**1,748**	**94**	**903**	**19**	**2,764**
	11,472	**305**	**1,722**	**76**	**13,575**
Non-executive director:					
Ms. YANG Xiao	**1,158**	**31**	**–**	**19**	**1,208**
	12,630	**336**	**1,722**	**95**	**14,783**

	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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all directors, details of whose remuneration are set out in note 8 above. The five highest paid employees during the year ended 31 December 2010 included four directors. Details of the remuneration of the remaining one non-director, highest paid employee for 2010 are as follows:

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

In prior 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 prior 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 (2010: 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.

	2011 **HK$'000**	2010 HK$'000
Group:		
Current – Mainland China		
Charge for the year	**34,884**	70,772
Underprovision/(overprovision) in prior years	**(612)**	3,291
Deferred *(note 32)*	**18,956**	(9,227)
Total tax charge for the year	**53,228**	64,836

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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	
	2011	2010
	HK$'000	HK$'000
Profit before tax	**324,297**	545,101
Tax at the statutory tax rate of 25%	**81,074**	136,275
Lower tax rates for specific provinces or enacted by local authorities	**(86,832)**	(81,350)
Effect of increase in tax rates on deferred tax	**5,154**	974
Adjustments in respect of current tax of previous periods	**(612)**	3,291
Losses attributable to associates	**32**	14
Income not subject to tax	**(14,186)**	(11,595)
Expenses not deductible for tax	**16,381**	23,194
Additional deductible research and development expenses	**(14,435)**	(10,734)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC Subsidiaries	**–**	4,514
Tax losses utilised from previous periods	**–**	(10,270)
Temporary difference not recognised	**23,783**	10,523
Tax losses not recognised	**42,869**	–
Tax charge at the Group's effective rate	**53,228**	64,836
The Group's effective income tax rate	**16.4%**	11.9%

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen") and Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad"), the Company's wholly-owned subsidiaries, were assessed as high-technology enterprises and were subject to CIT at a rate of 15% for the year ended 31 December 2011.

(b) 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.

(c) Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an 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 2010 and 2011 and is entitled to a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2014. Therefore, Xi'an Coolpad was exempted from CIT for the current year.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 includes a profit of HK$11,930,000 (2010: HK$61,615,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. DIVIDENDS

	2011 **HK$'000**	2010 HK$'000
Interim – HK1 cent (2010: HK1 cent) per ordinary share	**21,451**	20,984
Proposed final – HK2 cents (2010: HK5 cents) per ordinary share	**43,005**	112,717
	64,456	133,701

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,190,412,197 (2010: 2,089,801,111) in issue during the year.

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

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

	2011	2010
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**271,364**	480,265

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,190,412,197**	2,089,801,111
Effect of dilution – weighted average number of ordinary shares: share options	**42,754,598**	72,018,192
	2,233,166,795	2,161,819,303

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 2011						
Cost or valuation:						
At 1 January 2011	308,390	3,535	104,174	10,035	49,611	475,745
Additions	4,472	141	15,918	65	71,483	92,079
Surplus on revaluation	23,350	–	–	–	–	23,350
Disposals	–	–	(7,251)	(571)	–	(7,822)
Transfers	27,969	–	1,226	–	(29,195)	–
Exchange realignment	16,658	179	5,409	487	1,754	24,487
At 31 December 2011	380,839	3,855	119,476	10,016	93,653	607,839
Accumulated depreciation:						
At 1 January 2011	5,395	690	47,289	5,134	–	58,508
Depreciation provided during the year	16,534	1,049	21,559	1,238	–	40,380
Write-back on revaluation	(17,505)	–	–	–	–	(17,505)
Disposals	–	–	(3,511)	(491)	–	(4,002)
Exchange realignment	244	60	2,785	272	–	3,361
At 31 December 2011	4,668	1,799	68,122	6,153	–	80,742
Net book value:						
At 31 December 2011	376,171	2,056	51,354	3,863	93,653	527,097
Analysis of cost or valuation:						
At cost	6,887	3,855	119,476	10,016	93,653	233,887
At valuation	373,952	–	–	–	–	373,952
	380,839	3,855	119,476	10,016	93,653	607,839

At 31 December 2011, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$55,491,000 (2010: HK$187,988,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 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
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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Except for the purchased 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$373,952,000 based on their existing use. A revaluation surplus, net of tax, of HK$34,324,000, resulting from the above valuations, has been credited to other comprehensive income.

At 31 December 2010, the Group's buildings with a net book value of HK$41,219,000 were pledged to secure general banking facilities granted to the Group (note 31). None of the Group's property, plant and equipment were pledged to secure general banking facilities granted to the Group at 31 December 2011.

Company

	Motor vehicles HK$'000
31 December 2011	
Cost:	
At 1 January 2011 and 31 December 2011	**518**
Accumulated depreciation:	
At 1 January 2011	**272**
Depreciation provided during the year	**93**
At 31 December 2011	**365**
Net book value:	
At 31 December 2011	**153**
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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

15. INVESTMENT PROPERTIES

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 January	**304,456**	285,254
Net gain from a fair value adjustment	**15,024**	9,072
Exchange realignment	**15,472**	10,130
Carrying amount at 31 December	**334,952**	304,456

The Group's investment properties are situated in Mainland China.

The Group's investment properties were revalued on 31 December 2011 by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$334,952,000 on an open market, existing use basis.

At 31 December 2011, certain of the Group's investment properties with a carrying value of approximately HK$104,396,000 (2010: HK$134,906,000) were pledged to secure general banking facilities granted to the Group (note 31).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 January	**68,841**	63,433
Addition	**41,439**	4,725
Recognised during the year	**(1,934)**	(1,485)
Exchange realignment	**4,375**	2,168
Carrying amount at 31 December	**112,721**	68,841
Current portion included in prepayments, deposits and other receivables *(note 24)*	**(2,499)**	(1,520)
Non-current portion	**110,222**	67,321

These leasehold lands are situated in Mainland China and are held under medium term lease.

At 31 December 2010, the Group's prepaid land lease payment with carrying value of HK$51,509,000 was pledged to secure general banking facilities granted to the Group (note 31). None of the Group's prepaid land lease payment was pledged to secure general banking facilities granted to the Group at 31 December 2011.

At 31 December 2011, the Group has yet to obtain land use right certificates for certain land with a net book value of approximately HK$4,736,000 (2010: HK$4,623,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

17. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2011			
Cost:			
At 1 January 2011	**138,083**	**91,470**	**229,553**
Additions	**43,799**	**3,412**	**47,211**
Exchange realignment	**6,093**	**4,153**	**10,246**
At 31 December 2011	**187,975**	**99,035**	**287,010**
Accumulated amortisation:			
At 1 January 2011	**66,741**	**68,518**	**135,259**
Provided during the year	**24,876**	**8,020**	**32,896**
Exchange realignment	**3,157**	**3,207**	**6,364**
At 31 December 2011	**94,774**	**79,745**	**174,519**
Net carrying amount:			
At 31 December 2011	**93,201**	**19,290**	**112,491**
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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 and 31 December 2011	–

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011 **HK$'000**	2010 HK$'000
Unlisted shares, at cost	**44,991**	44,991
Capital contribution in respect of employee share-based compensation#	**69,982**	37,115
	114,973	82,106

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The amounts due from subsidiaries included in the Company's current assets of HK$229,709,000 (2010: HK$202,204,000) 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	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$1,550,000	–	60	Sale of mobile phones
Coolpad Technologies INC.	United States	US$1	–	100	Sale of mobile phones

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

19. INVESTMENTS IN ASSOCIATES

	Group 2011 HK$'000	2010 HK$'000
Share of net assets	**34,523**	196

At 31 December 2011, particulars of the associates 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
Shenzhen Penghe Property Investment Co., Ltd. ("Shenzhen Penghe")*	PRC/ Mainland China	RMB80,000,000	35	Property development

The Group's shareholdings in the associates are 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 extracted from their management accounts:

	2011 HK$'000	2010 HK$'000
Assets	**101,101**	1,570
Liabilities	**2,046**	590
Loss	**(612)**	(477)

During the year, the Group invested in Shenzhen Penghe and held 35% of the equity interest therein.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

20. AVAILABLE-FOR-SALE INVESTMENT

	2011	2010
	HK$'000	HK$'000
Unlisted equity investment, at cost	**11,102**	–

The above unlisted equity investment is designated as an available-for-sale financial asset and has no fixed maturity date. The above unlisted equity investment is an equity security issued by a private entity established in the PRC.

As at 31 December 2011, the above unlisted equity investments with a carrying amount of HK$11,102,000 (2010: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

21. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**987,201**	453,928
Work in progress	**212,362**	109,518
Finished goods	**468,982**	271,732
	1,668,545	835,178

NOTES TO FINANCIAL STATEMENTS

31 December 2011

22. TRADE RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**1,573,411**	224,069	**3,925**	–
Impairment	**(1,662)**	(2,056)	**–**	–
	1,571,749	222,013	**3,925**	–

Sales of the Group's products are normally settled on a cash-on-delivery basis. However, in the cases 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**1,526,898**	196,437	**1,499**	–
4 to 6 months	**21,322**	3,760	**700**	–
7 to 12 months	**23,529**	21,682	**1,726**	–
Over 1 year	**1,662**	2,190	**–**	–
	1,573,411	224,069	**3,925**	–
Less: Impairment	**(1,662)**	(2,056)	**–**	–
	1,571,749	222,013	**3,925**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2011

22. TRADE RECEIVABLES (CONTINUED)

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**2,056**	1,087
Impairment losses recognised *(note 6)*	**922**	909
Amount written off as uncollectible	**(1,405)**	–
Exchange realignment	**89**	60
	1,662	2,056

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,662,000 (2010: HK$2,056,000) with a carrying amount before provision of HK$1,662,000 (2010: HK$2,056,000).

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**1,526,898**	196,437	**1,499**	–
Less than 3 months past due	**21,322**	3,760	**700**	–
More than 3 months past due	**23,529**	21,816	**1,726**	–
	1,571,749	222,013	**3,925**	–

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

23. BILLS RECEIVABLE

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills receivable	**282,131**	216,388	**–**	5,250
Bills receivable discounted with recourse	**403,145**	480,850	**403,145**	480,850
	685,276	697,238	**403,145**	486,100

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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**282,131**	216,388	**–**	5,250
4 to 12 months	**403,145**	480,850	**403,145**	480,850
	685,276	697,238	**403,145**	486,100

Bills receivable are non-interest-bearing.

At 31 December 2011 and 2010, 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 were pledged to secure the bills payable (note 28).

Certain of the Group's PRC Subsidiaries are required to settle their overseas purchases in United States dollars ("USD"). In order to ensure that the Group has sufficient USD for settlement of overseas purchases, the Company entered into trade financing arrangement with these subsidiaries and certain commercial banks in Mainland China and Hong Kong. Under this arrangement, these PRC subsidiaries place RMB deposits with commercial banks in Mainland China and issue letters of credit to the Company. Upon receipt of the letters of credit, the Company then discounts the bills receivable and obtain an equivalent amount of bank loans in USD to settle the trade payable to suppliers.

As at 31 December 2011, the Group recorded bills receivable discounted with recourse of HK$403,145,000 (2010: HK$480,850,000), bank loans of HK$384,216,000 (2010: HK$475,492,000) and pledged deposits of HK$403,145,000 (2010: HK$480,850,000) under this financing arrangement.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to suppliers	**232,522**	111,740	**12,234**	1,708
Current portion of prepaid land lease payments *(note 16)*	**2,499**	1,520	**–**	–
Deposits and other receivables	**76,373**	55,451	**46**	39
Prepayment for purchase of leasehold land	**–**	40,438	**–**	–
Prepayment for purchase of property, plant and equipment	**–**	3,338	**–**	–
Prepaid expenses	**11,432**	10,502	**–**	–
	322,826	222,989	**12,280**	1,747
Non-current portion	**(8,374)**	(46,607)	**–**	–
	314,452	176,382	**12,280**	1,747

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.

25. DUE FROM DIRECTORS

Particulars of the amounts due from directors are as follows:

	Group	
	2011	2010
Name	**HK$'000**	HK$'000
Mr. GUO Deying	**317**	125
Mr. JIANG Chao	**8**	7
Mr. LI Bin	**330**	79
Mr. LI Wang	**–**	369
	655	580

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,058,857**	641,895	**127,922**	68,382
Time deposits	**1,080,007**	728,123	**283,705**	26,128
	2,138,864	1,370,018	**411,627**	94,510
Less: Pledged time deposits:				
– Pledged for bills payable *(note 28)*	**(689,390)**	(540,018)	**–**	–
– Pledged for short-term loans *(note 31 (a) (ii))*	**(325,211)**	(70,511)	**(283,705)**	–
– Pledged for issuance of letters of credit	**(65,406)**	(117,594)	**–**	(26,128)
	(1,080,007)	(728,123)	**(283,705)**	(26,128)
Cash and cash equivalents	**1,058,857**	641,895	**127,922**	68,382

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to HK$996,233,000 (2010: HK$555,103,000). 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

27. 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		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**1,361,305**	532,048	**–**	667
4 to 6 months	**13,212**	19,533	**–**	–
7 to 12 months	**1,799**	4,154	**–**	–
Over 1 year	**1,153**	10,818	**–**	–
	1,377,469	566,553	**–**	667

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

28. 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	
	2011	2010
	HK$'000	HK$'000
Within 3 months	**1,212,513**	208,597
4 to 12 months	**403,145**	480,850
	1,615,658	689,447

At 31 December 2011, the Group's bills payable were secured by time deposits of HK$689,390,000 (2010: HK$540,018,000) (note 26). At 31 December 2010, the Group's bills payable were also secured by bills receivable of HK$147,473,000 (note 23).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Note	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Accrued royalties		**221,627**	196,159	**–**	–
Advances from customers		**285,082**	178,472	**3,103**	2,420
Product warranty provision	*(a)*	**41,118**	20,477	**–**	–
Accrued sales incentives		**194,491**	155,188	**–**	–
Other accruals		**8,024**	3,029	**3,103**	3,029
Other payables		**231,377**	172,430	**7,444**	1,127
		981,719	725,755	**13,650**	6,576

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

Note:

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

	Group	
	2011 HK$'000	2010 HK$'000
At 1 January	**20,477**	13,363
Additional provision	**62,495**	31,649
Amounts utilised during the year	**(43,335)**	(25,154)
Exchange realignment	**1,481**	619
At 31 December	**41,118**	20,477

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

30. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2011	2010	**2011**	2010
	Liabilities	Liabilities	**Liabilities**	Liabilities
	HK$'000	HK$'000	**HK$'000**	HK$'000
Forward currency contracts	**7,228**	7,886	**6,341**	7,886
Interest rate swaps	**1,149**	2,810	**1,149**	2,810
	8,377	10,696	**7,490**	10,696

The Group has entered into forward currency contracts with commercial banks to purchase USD (amounted to the USD loans plus interests thereon) in Renminbi at predetermined forward rates. In the meantime, the Group also entered into interest rate swaps with certain banks to receive interest at floating rates and pay interest at fixed rates.

The forward currency contracts and interest rate swaps are not designated for hedge purpose and were measured at fair value through profit or loss. At 31 December 2011, the estimated fair values of the Group's forward currency contracts and interest rate swaps, which were recognised as financial liabilities, were HK$7,228,000 (2010: HK$7,886,000) and HK$1,149,000 (2010: HK$2,810,000), respectively. These amounts are based on market prices quoted by the counterparty financial institutions at 31 December 2011. During the year, the net income on changes in fair values of the forward currency contracts and interest rate swaps, amounting to HK$2,319,000 (2010: net loss of HK$10,696,000) in total, has been recognised in the profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

31. INTEREST-BEARING BANK BORROWINGS

	2011			2010		
Group	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**3.22-6.1**	**2012**	**341,070**	6.22	2011	116,794
Bank loans – unsecured	**5.96-7.81**	**2012**	**249,165**	5.94-5.96	2011	14,255
Bank loans – discounted bills with recourse	**1.33-3.3**	**2012**	**384,216**	1.17-1.66	2011	475,492
Bank loans – import and trust receipt loans	**3.12-4.82**	**2012**	**215,643**			–
			1,190,094			606,541
Non-current						
Bank loans – secured	**6.1**	**2013-2014**	**67,843**	6.22	2012-2013	117,518
Bank loans – unsecured			**–**	5.94-5.96	2012-2018	15,122
			67,843			132,640
			1,257,937			739,181
Analysed into bank loans repayable:						
Within one year or on demand			**1,190,094**			606,541
In the second year			**44,406**			65,963
In the third to fifth years, inclusive			**23,437**			66,269
Beyond five years			**–**			408
			1,257,937			739,181

	2011			2010		
Company	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – discounted bills with recourse	**1.33-3.3**	**2012**	**384,216**	1.17-1.66	2011	475,492

NOTES TO FINANCIAL STATEMENTS

31 December 2011

31. 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 investment properties situated in Mainland China, which had an aggregate carrying value at 31 December 2011 of approximately HK$104,396,000 (2010: HK$134,906,000);

(ii) the pledge of the Group's time deposits which had a carrying value at 31 December 2011 of approximately HK$325,211,000 (2010: HK$70,511,000).

At 31 December 2010, certain of the Group's bank loans were secured by the pledge of certain of the Group's buildings and leasehold land situated in Mainland China, which had an aggregate carrying value at 31 December 2010 of approximately HK$41,219,000 and HK$51,509,000, respectively.

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

	2011 **HK$'000**	2010 HK$'000
Personal guarantees from related parties:		
– Mr. GUO Deying	**33,305**	192,730
– Ms. YANG Xiao*	**33,305**	192,730
Corporate guarantee from an independent third-party:		
– Dongguan Songshan Lake Industrial Development Co., Ltd.	**–**	1,172

* Ms. YANG Xiao is the spouse of Mr. GUO Deying.

(b) At the end of the reporting period, the Group's bank borrowings of HK$78,405,000 and HK$1,179,532,000 bore interest at fixed rates and floating rates, respectively.

(c) At the end of the reporting period, the Group's bank borrowings of HK$619,218,000 and HK$638,719,000 were denominated in RMB and USD, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 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 and 1 January 2011	**34,416**	**8,209**	**42,625**
Debited to equity during the year	**6,531**	**–**	**6,531**
Charged to the profit or loss for the year	**9,583**	**–**	**9,583**
Exchange differences	**2,099**	**–**	**2,099**
At 31 December 2011	**52,629**	**8,209**	**60,838**

DEFERRED TAX ASSETS

Group	Provision for impairment of assets HK$'000	Amortisation allowance in excess of related amortisation HK$'000	Accruals and other provisions HK$'000	Total HK$'000
At 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 and 1 January 2011	**4,486**	**4,029**	**12,924**	**21,439**
Credited/(charged) to the profit or loss for the year	**3,198**	**674**	**(13,245)**	**(9,373)**
Exchange differences	**300**	**216**	**321**	**837**
At 31 December 2011	**7,984**	**4,919**	**–**	**12,903**

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 2011, the Group has not recognised deferred tax liabilities of HK$116,301,000 (2010: HK$89,659,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$1,163,010,000 (2010: HK$896,589,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and determines that it is not probable that these profits will be distributed in the foreseeable future.

DEFERRED TAX ASSETS NOT RECOGNISED

The Group had total accumulated tax losses arising in Mainland China and Hong Kong of HK$320,802,000 (2010: HK$75,938,000) for offsetting against future taxable profits. 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.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

	2011 HK$'000	2010 HK$'000
Authorised:		
20,000,000,000 (2010: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,147,405,000 (2010: 2,102,360,000) ordinary shares of HK$0.01 each	**21,474**	21,024

NOTES TO FINANCIAL STATEMENTS

31 December 2011

33. SHARE CAPITAL (CONTINUED)

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

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000 *(note 36)*	Total HK$'000
At 1 January 2010		2,059,084,000	20,591	152,514	173,105
Share options exercised		43,276,000	433	24,735	25,168
Transfer from share option reserve		–	–	10,257	10,257
Proposed final 2010 dividend		–	–	(112,717)	(112,717)
At 31 December 2010 and 1 January 2011		**2,102,360,000**	**21,024**	**74,789**	**95,813**
Share options exercised	*(a) to (d)*	**10,257,000**	**102**	**5,894**	**5,996**
Transfer from share option reserve		**–**	**–**	**2,579**	**2,579**
Placing and issue shares	*(e)*	**150,000,000**	**1,500**	**667,611**	**669,111**
Repurchase of shares	*(f)*	**(115,212,000)**	**(1,152)**	**(189,112)**	**(190,264)**
Proposed final 2011 dividend		**–**	**–**	**(43,005)**	**(43,005)**
At 31 December 2011		**2,147,405,000**	**21,474**	**518,756**	**540,230**

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.

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

(a) The subscription rights attaching to 196,000 share options (note 34) were exercised at the subscription price of HK$0.4615 per share, resulting in the issue of 196,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$90,454.

(b) The subscription rights attaching to 1,230,000 share options (note 34) were exercised at the subscription price of HK$1.415 per share, resulting in the issue of 1,230,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$1,740,450.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

33. SHARE CAPITAL (CONTINUED)

(c) The subscription rights attaching to 2,380,000 share options (note 34) were exercised at the subscription price of HK$0.674 per share, resulting in the issue of 2,380,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$1,604,120.

(d) The subscription rights attaching to 6,451,000 share options (note 34) were exercised at the subscription price of HK$0.397 per share, resulting in the issue of 6,451,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$2,561,047.

(e) An aggregate of 150,000,000 placing shares had been placed at HK$4.55 per share on 19 January 2011. The placing and the subscription were completed on 24 January 2011 and 28 January 2011, respectively. The net proceeds from the placing amounted to approximately HK$669,111,000.

(f) During the year ended 31 December 2011, the Company repurchased a total of 115,212,000 of its own ordinary shares on the Stock Exchange at a net aggregate consideration of approximately HK$190,264,000. All the repurchased shares were cancelled by the Company upon such repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase was charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

34. SHARE OPTION SCHEME (CONTINUED)

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

	2011 Weighted average exercise price HK$ per share	**2011** Number of options '000	2010 Weighted average exercise price HK$ per share	2010 Number of options '000
At 1 January	**1.9553**	**140,612**	0.733	118,200
Granted during the year	**1.678**	**52,524**	3.24	65,880
Exercised during the year	**0.5846**	**(10,257)**	0.582	(43,276)
Forfeited during the year	**1.1418**	**(12,480)**	–	–
Expired during the year	**0.46**	**(500)**	0.4615	(192)
At 31 December	**2.0165**	**169,899**	1.9553	140,612

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.154 per share (2010: HK$3.179 per share).

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

2011

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
9,586	**1.415**	**18-09-08 to 17-09-12**
2,832	**1.415**	**18-09-10 to 17-09-14**
7,556	**0.674**	**20-05-09 to 19-05-13**
6,328	**0.674**	**20-05-10 to 19-05-14**
11,256	**0.674**	**20-05-11 to 19-05-15**
3,488	**0.674**	**20-05-14 to 19-05-18**
2,361	**0.397**	**27-02-10 to 26-02-12**
4,112	**0.397**	**27-02-10 to 26-02-14**
3,976	**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**
51,744	**1.678**	**12-07-12 to 11-07-16**
780	**1.678**	**12-07-14 to 11-07-18**
169,899		

NOTES TO FINANCIAL STATEMENTS

31 December 2011

34. SHARE OPTION SCHEME (CONTINUED)

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		

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

The fair value of the share options granted during the year was approximately HK$45,079,000 (2010: HK$87,155,000) of which the Group recognised a share option expense of HK$9,491,000 (2010: HK$12,989,000) during the year ended 31 December 2011.

At 31 December 2011, the equity-settled share option expenses under the Scheme of HK$88,630,000 had not been recognised in the profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

34. SHARE OPTION SCHEME (CONTINUED)

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$45,079,000 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:

	2011	2010
Expected dividend yield (%)	**1.8-2**	2
Expected volatility (%)	**73-77**	70
Historical volatility (%)	**73-77**	70
Risk-free interest rate (%)	**1.24-1.75**	1.554-2.089
Weighted average share price (HK$ per share)	**1.67**	2.95

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 10,257,000 share options exercised during the year resulted in the issue of 10,257,000 ordinary shares of the Company and new share capital of HK$102,000 and share premium of HK$5,894,000 (before issue expenses), as further detailed in note 33 to the financial statements.

At the end of the reporting period, the Company had 169,899,000 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 169,899,000 additional ordinary shares of the Company and additional share capital of HK$1,699,000 and share premium of HK$340,902,000 (before issue expenses).

Subsequent to the end of the reporting period, a total of 2,856,000 share options were exercised, resulting in the issue of 2,856,000 ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 167,043,000 share options outstanding under the Scheme, which represented approximately 7.77% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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, none of these purchased shares was awarded (2010: 17,420,000 shares). The total cost of the remaining shares at the end of the reporting period was HK$321,000 (2010: HK$321,000).

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 44 to 45 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 and 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 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	**Capital redemption reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Retained profit** HK$'000	**Total** HK$'000
At 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 and 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 and 1 January 2011		74,789	44,992	37,931	41,304	–	388	40,658	240,062
Total comprehensive income for the year	*11*	–	–	–	–	–	–	11,930	11,930
Issue of shares	*33*	667,611	–	–	–	–	–	–	667,611
Share option exercised	*33*	5,894							5,894
Repurchase of shares	*33*	(189,112)	–	–	–	1,152	–	(1,152)	(189,112)
Transfer from share option reserve	*33*	2,579	–	(2,579)	–	–	–	–	–
Equity-settled share option arrangements	*34*	–	–	34,611	–	–	–	–	34,611
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	(4,479)	–	–	–	4,479	–
Difference between the proposed final 2010 dividend and the actual dividend paid		–	–	–	–	–	–	(242)	(242)
Interim 2011 dividend	*12*	–	–	–	–	–	–	(21,451)	(21,451)
Proposed final 2011 dividend	*12*	(43,005)	–	–	–	–	–	–	(43,005)
At 31 December 2011		518,756	44,992	65,484	41,304	1,152	388	34,222	706,298

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Within one year	**28,014**	10,550
In the second to fifth years, inclusive	**9,884**	6,104
	37,898	16,654

(b) AS LESSEE

The Group leases certain of its warehouses and office premises under operating lease arrangements for lease terms ranging from one to three 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	
	2011 HK$'000	2010 HK$'000
Within one year	**8,724**	10,200
In the second to third years, inclusive	**3,437**	8,832
	12,161	19,032

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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	
	2011	2010
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**6,494**	38,988

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

39. RELATED PARTY TRANSACTIONS

(a) TRANSACTIONS WITH RELATED PARTIES

	Group	
	2011	2010
	HK$'000	HK$'000
An associate:		
Purchase of raw materials	**11,691**	–

Purchases of materials from related companies were made based on mutually agreed terms.

(b) 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	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,547**	2,461
Pension scheme contributions	**79**	47
Equity-settled share option expense	**350**	375
Total compensation paid to other key management personnel	**3,976**	2,883

(c) Details of the Group's balances with its related parties as at the end of the reporting period are disclosed in note 25 to the financial statements.

(d) GUARANTEES 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 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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:

	Group 2011 Loans and receivables HK$'000	Group 2011 Available-for-sale financial assets HK$'000	Group 2011 Total HK$'000	Group 2010 Loans and receivables HK$'000
Available-for-sale investment	**–**	**11,102**	**11,102**	–
Trade receivables	**1,571,749**	**–**	**1,571,749**	222,013
Bills receivable	**685,276**	**–**	**685,276**	697,238
Financial assets included in prepayments, deposits and other receivables	**76,373**	**–**	**76,373**	55,451
Due from directors	**655**	**–**	**655**	580
Pledged time deposits	**1,080,007**	**–**	**1,080,007**	728,123
Cash and cash equivalents	**1,058,857**	**–**	**1,058,857**	641,895
	4,472,917	**11,102**	**4,484,019**	2,345,300

FINANCIAL LIABILITIES

	Group 2011 Financial liabilities at fair value HK$'000	Group 2011 Financial liabilities at amortised cost HK$'000	Group 2011 Total HK$'000	Group 2010 Financial liabilities at fair value HK$'000	Group 2010 Financial liabilities at amortised cost HK$'000	Group 2010 Total HK$'000
Trade payables	**–**	**1,377,469**	**1,377,469**	–	566,553	566,553
Bills payable	**–**	**1,615,658**	**1,615,658**	–	689,447	689,447
Financial liabilities included in other payables and accruals	**–**	**549,338**	**549,338**	–	476,461	476,461
Derivative financial instruments	**8,377**	**–**	**8,377**	10,696	–	10,696
Interest-bearing bank borrowings	**–**	**1,257,937**	**1,257,937**	–	739,181	739,181
	8,377	**4,800,402**	**4,808,779**	10,696	2,471,642	2,482,338

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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	
	2011	2010
	HK$'000	HK$'000
Due from subsidiaries	**229,709**	202,204
Trade receivables	**3,925**	–
Bills receivable	**403,145**	486,100
Financial assets included in deposits and other receivables	**46**	39
Pledged time deposits	**283,705**	26,128
Cash and cash equivalents	**127,922**	68,382
	1,048,452	782,853

FINANCIAL LIABILITIES

	Company					
	2011			2010		
	Financial liabilities at fair value	**Financial liabilities at amortised cost**	**Total**	Financial liabilities at fair value	Financial liabilities at amortised cost	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Trade payables	**–**	**–**	**–**	–	667	667
Financial liabilities included in other payables and accruals	**–**	**10,547**	**10,547**	–	1,127	1,127
Derivative financial instruments	**7,490**	**–**	**7,490**	10,696	–	10,696
Interest-bearing bank borrowings	**–**	**384,216**	**384,216**	–	475,492	475,492
	7,490	**394,763**	**402,253**	10,696	477,286	487,982

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale investment	**11,102**	–	**11,102**	–
Trade receivables	**1,571,749**	222,013	**1,571,749**	222,013
Bills receivable	**685,276**	697,238	**685,276**	697,238
Financial assets included in prepayments, deposits and other receivables	**76,373**	55,451	**76,373**	55,451
Due from directors	**655**	580	**655**	580
Pledged time deposits	**1,080,007**	728,123	**1,080,007**	728,123
Cash and cash equivalents	**1,058,857**	641,895	**1,058,857**	641,895
	4,484,019	2,345,300	**4,484,019**	2,345,300
Financial liabilities				
Trade payables	**1,377,469**	566,553	**1,377,469**	566,553
Bills payable	**1,615,658**	689,447	**1,615,658**	689,447
Financial liabilities included in other payables and accruals	**549,338**	476,461	**549,338**	476,461
Derivative financial instruments	**8,377**	10,696	**8,377**	10,696
Interest-bearing bank borrowings	**1,257,937**	739,181	**1,257,937**	739,181
	4,808,779	2,482,338	**4,808,779**	2,482,338

NOTES TO FINANCIAL STATEMENTS

31 December 2011

41. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

	Company			
	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Due from subsidiaries	**229,709**	202,204	**229,709**	202,204
Trade receivables	**3,925**	–	**3,925**	–
Bills receivable	**403,145**	486,100	**403,145**	486,100
Financial assets included in deposits and other receivables	**46**	39	**46**	39
Pledged time deposits	**283,705**	26,128	**283,705**	26,128
Cash and cash equivalents	**127,922**	68,382	**127,922**	68,382
	1,048,452	782,853	**1,048,452**	782,853
Financial liabilities				
Trade payable	**–**	667	**–**	667
Financial liabilities included in other payables and accruals	**10,547**	1,127	**10,547**	1,127
Derivative financial instruments	**7,490**	10,696	**7,490**	10,696
Interest-bearing bank borrowings	**384,216**	475,492	**384,216**	475,492
	402,253	487,982	**402,253**	487,982

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:

The fair values of cash and cash equivalents, pledged time deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, due from directors, available-for-sale investment, financial liabilities included in other payables and accruals 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 loans 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

41. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: 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

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

At 31 December 2011, neither the Group nor the Company had financial assets measured at fair value (2010: Nil).

At 31 December 2011 and 2010, the financial liabilities of the Group and of the Company measured at fair value were derivative financial instruments, which are measured as level 2.

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 foreign 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 31 to the financial statements.

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
2011				
Renminbi	**100**	**(6,192)**	**100**	**–**
United States dollar	**100**	**(5,603)**	**100**	**(4,075)**
Renminbi	**(100)**	**6,192**	**(100)**	**–**
United States dollar	**(100)**	**5,603**	**(100)**	**4,075**
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

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. The Group entered into forward currency contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and the amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK (CONTINUED)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). Other components of equity would have no change.

	Group	
	Increase/ (decrease) in USD	Increase/ (decrease) in profit before tax
	%	HK$'000
2011		
If RMB weakens against USD	**5%**	**(47,680)**
If RMB strengthens against USD	**(5%)**	**47,680**
2010		
If RMB weakens against USD	5%	(32,712)
If RMB strengthens against USD	(5%)	32,712

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 bank balances, bills receivable, deposits and other receivables, due from directors and available-for-sale instrument, 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 concentrations of credit risk as 96% (2010: 71%) of the Group's trade receivables were due from the Group's five largest customers.

The credit risks for pledged time deposits and cash and bank balances are considered minimal as such amounts are placed with banks with good credit standing. Further quantitative data in respect of the Group's exposure to credit risk from trade are disclosed in note 22 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

	2011			
	On demand and less than 12 months HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Trade payables	**1,377,469**	**–**	**–**	**1,377,469**
Bills payable	**1,615,658**	**–**	**–**	**1,615,658**
Financial liabilities included in other payables and accruals	**549,338**	**–**	**–**	**549,338**
Derivative financial instruments	**423,631**	**–**	**–**	**423,631**
Interest-bearing bank borrowings	**1,225,611**	**68,156**	**–**	**1,293,767**
	5,191,707	**68,156**	**–**	**5,259,863**

	2010			
	On demand and less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	555,735	10,818	–	566,553
Bills payable	689,447	–	–	689,447
Financial liabilities included in other payables and accruals	476,461	–	–	476,461
Derivative financial instruments	552,708	–	–	552,708
Interest-bearing bank borrowings	624,264	141,668	687	766,619
	2,898,615	152,486	687	3,051,788

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

	2011 On demand and less than 12 months HK$'000
Financial liabilities included in other payables and accruals	**10,547**
Derivative financial instruments	**305,033**
Interest-bearing bank borrowings	**386,247**
	701,827

	2010 On demand and less than 12 months HK$'000
Trade payables	667
Financial liabilities included in other payables and accruals	1,127
Derivative financial instruments	552,708
Interest-bearing bank borrowings	481,200
	1,035,702

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 2011 and 2010.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 and other payables and accruals, 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

	2011	2010
	HK$'000	HK$'000
Interest-bearing bank borrowings	**1,257,937**	739,181
Trade payables	**1,377,469**	566,553
Bills payable	**1,615,658**	689,447
Other payables and accruals	**981,719**	725,755
Less: Cash and cash equivalents	**(1,058,857)**	(641,895)
Net debt	**4,173,926**	2,079,041
Equity attributable to owners of the Company	**2,185,165**	1,416,607
Capital and net debt	**6,359,091**	3,495,648
Gearing ratio	**66%**	59%

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2012.