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)

2012
Annual Report

Coolpad 酷派
live smart

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, CDMA-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

CORPORATE INFORMATION

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY SECRETARY

Mr. JIANG Chao, ACCA

AUDIT COMMITTEE & REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. GUO Deying *(Chairperson)*
Mr. YANG Xianzu
Mr. XIE Weixin

AUTHORISED REPRESENTATIVES

Mr. JIANG Chao
Mr. LI Wang

CONTACT INFORMATION FOR INVESTOR RELATIONS

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

AUDITORS

Ernst & Young
Certified Public Accountants
22/F 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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
Royal Bank House, 24 Shedden Road
George Town
Grand Cayman KY1-1110
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，
ANYTIME RICH IN **豐富生活色彩**
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)				
	2012	2011	2010	2009	2008
Operating revenue	**14,358,830**	7,340,495	4,592,699	2,604,865	1,007,135
Profit/(loss) before tax	**418,160**	324,297	545,101	263,579	(64,307)
Tax	**(93,857)**	(53,228)	(64,836)	(23,574)	(11,769)
Profit/(loss) for the year	**324,303**	271,069	480,265	240,005	(76,076)

FINANCIAL POSITION

	As at 31 December (HK$'000)				
	2012	2011	2010	2009	2008
Non-current assets	**1,244,373**	1,151,664	951,550	831,430	722,360
Current assets	**6,859,028**	6,379,541	3,301,409	1,418,416	862,915
Non-current liabilities	**98,645**	143,212	180,318	245,096	225,480
Current liabilities	**5,591,769**	5,198,303	2,652,149	1,125,624	718,696
Net assets	**2,412,987**	2,189,690	1,420,492	879,126	641,099

CHAIRMAN'S STATEMENT

Dear fellow shareholders:

It is my great honor to present the annual results of the Group for the year ended 31 December 2012 to our investors. Along with the strong growth momentum of the 3G smartphone market in China and the successful expansion in the overseas market, we have achieved a record-breaking performance in the volume of the full year shipments during the year under review. The historical result reflects not only strong market growth, but also dedication by our employees and strong brand recognition from our customers and consumers.

Guo Deying
Chairman, Executive Director and CEO

FINANCIAL PERFORMANCE

For the year ended 31 December 2012, we had a turnover of approximately HK$14,358.8 million, which increased 95.6% from HK$7,340.5 million in 2011. The fast increase was mostly due to our focus on the mid-end and low-end smartphone market and was largely ascribed to the solid 3G business increase in Mainland China. The net profit of 2012 was approximately HK$324.3 million, which increased by 19.6% from HK$271.1 million in 2011. Gross profit margin for the year 2012 was 12.0%, which dropped by 2.7% from 14.7% in 2011. The drop of gross profit margin was because the competition in the mid-end and low-end smartphone market in Mainland China got intensified in 2012. Basic and diluted earnings per share of the Company reached HK15.39 cents and HK15.12 cents, respectively for the year ended 31 December 2012.

DIVIDEND DISTRIBUTION

The directors (the "Directors") proposed a final dividend of HK3 cents per share for the full year of 2012.

BUSINESS DEVELOPMENT

In the year of 2012, more and more mobile users switched to buy the third-generation (3G) network smartphones in Mainland China, since the telecommunications carriers effectively promoted the 3G business, and the 3G smartphones

CHAIRMAN'S STATEMENT

were becoming more affordable than before. We grasped the opportunities of the expansion of the smartphone market, depending on our enriched 3G smartphones mix, the more innovative technologies and the better user experience of these products. We got a fruitful year in 2012, achieved a new record of the scale increase, and increased the reputation of our Group's brand Coolpad became famous worldwide. According to the report from a third-party market survey firm, the market share of Coolpad smartphones in the whole 3G smartphone market of Mainland China ranked No.4 in the year of 2012, which strengthened our leadership as one of the top smartphone vendors in China.

In the year of 2012, we launched a full range of Coolpad smartphones from high-end to mid-end and low-end ones, offering the users a better quality and better radio performance. As one of the few mobile phone vendors who are able to offer any mode of wireless network smartphones worldwide, we successfully rolled out the products covering 3G and the fourth-generation (4G) network smartphones to the market. For EVDO-based smartphones, we launched 18 new models. For TD-SCDMA-based smartphones, the Group launched 17 new models. For WCDMA-based smartphones, we launched 13 new models. We also launched a model of 4G FDD-LTE in the American market during 2012. These new models significantly contributed to the strong revenue and market share growth for the year of 2012. Coolpad brand has been widely recognized as one of the Chinese top smartphone brands by its consumers and business partners primarily due to its strong and enriched product mix.

Strengthening the R&D capability remained the focus of our Group, which brought us the absolute advantages while competing with our rivals in the smartphone market. Through differentiating the functions and features of the Android operating system, and providing the special Coollife UI4.1 user interface on the new models, the Coolpad smartphones became more competitive and more attractive. We also quickly upgraded Android operating system version to the latest one (Jelly Bean), running with the famous Coolpad DNA, such as the dual-mode, dual-standby technology combining two disparate radio technologies, private model guaranteeing the security of the users' private data, Chinese-language handwriting recognition software letting the users input more conveniently. The Coolcloud platform was also upgraded into the latest Coolcloud 3.0 version, which made the data synchronization work of smartphones faster and more effectively, when the users switched to the new Coolpad smartphones. Apart from the synchronization function, Coolpad users could also use the anti-theft, anti-virus, anti-pug etc. security features by Coolcloud to protect the data from being leaked out.

CHAIRMAN'S STATEMENT

As the high technologies developed fast especially in the hardware segment, such as more effective chipsets, the camera module, and the touch screen technology, we responded quickly and rolled out the new models based on the best hardware platforms. In respect of mobile hardware design, we collaborated with several 3G mobile chipset providers and some famous mobile industry designers to launch the popular affordable smartphones. In the year of 2012, we launched 9 new Dual-core 3G smartphones and 2 new Quad-core 3G smartphones to satisfy the needs of the customers. We continued to cooperate with the tier-one chipset suppliers to roll out the FDD-LTE 4G smartphones. Through great build quality, larger screens, solid radio performance and increased responsiveness, the users could enjoy the exciting smartphone experience and the fast speed of the mobile internet while using Coolpad smartphones. Depending on the strong R&D capabilities and the close collaboration with the components suppliers, we shortened the go-to-market time of the new models, and speeded up the smartphone upgrade cycle.

As a local brand in Mainland China, we know the demands of the local customers deeply, and could design the excellent software to satisfy the local customers. In the year of 2012, we closely collaborated with the local telecommunications carriers to launch the most popular customized models covering EVDO, TD-SCDMA, and WCDMA networks. We not only sold the smartphones through the carriers' channel, but also forged relationship with e-commerce partners to pave the way for a new chapter of development in sales through e-commerce channels. Meanwhile, we endeavoured to export the Coolpad smartphones to overseas market to improve the brand recognition in the global smartphone market. Except for the existing exploited market in India and Taiwan, we also successfully penetrated into the American market by the 4G smartphones in 2012. The affordable Coolpad 4G smartphones made more and more American users enjoy the 4G high-speed network, and were sold well in the American market.

In the year of 2012, we also focused on the improvement of general operation efficiency. We 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 our Group, even though under the intensifying competition and hard pressure during the year. The product quality and the production cost controls were also assured, depending on the improvements of the infrastructure for the product testing and assembly.

CHAIRMAN'S STATEMENT

OUR OUTLOOK FOR 2013

As the 3G smartphone market in Mainland China is booming in the year of 2013, we will continue to increase the shipments volume and capture more market share by the wonderful user experience of Coolpad smartphones. We will continuously put more efforts on the innovative technologies, keep close pace with the growth of domestic 3G mobile phone market in the coming future, expand wider overseas markets, and prepare well for the coming 4G market including both the TD-LTE and the FDD-LTE smartphones.

The year of 2013 is the 20th anniversary of our Group. Depending on the innovative notions, the strong R&D capabilities, and the successful transfer of the business, we've developed fast since our inception. The innovative technologies and the R&D will still be major aspects to invest. We will continue to develop and optimize our standard software and hardware development platform through close cooperation with the industry leading suppliers so as to introduce more feature-rich, ease-to-use Coolpad products and services. As the new technologies in the smartphone field develop fast, and the R&D capability of the Group becomes stronger, we will accelerate the product's developing period of the new models for sharing the latest technologies with our users. We will continue to grow and strengthen the depth of cooperation with the telecommunications carriers in the field of R&D on next generation network, such as 4G technology of TD-LTE and FDD-LTE, then make sure that Coolpad will be in the tier-1 brands once the carriers start to run the 4G network business, especially for the domestic carriers.

User experience of the smartphone is the key factor to win in this intensifying competitive market. We will do our best to build and improve the user experience of Coolpad smartphones, through optimizing interaction industry design (ID), the internal system, the functions and Coollife UI. To satisfy the user demands, more dual-mode dual-standby Coolpad new models will be launched in 2013. We will also launch more affordable Dual-core, Quad-core smartphones with higher hardware specifications in the massive market. Since we entered into the American 4G smartphone market, the series of the 4G new models based on the FDD-LTE will be strengthened in the year of 2013, and we will also prepare well for the TD-LTE products. Meanwhile, the Coolcloud platform will be upgraded much faster, integrated with more useful features, and provide a diverse array of contents and services to the customers, as more and more Coolpad users begin to enrol this platform. We will also strengthen the cooperation with the internet companies in terms of the flourish wireless internet age and the change of the user habit surfing the internet.

CHAIRMAN'S STATEMENT

We will continue to execute the global market strategy, while strengthening our hold of the market share in the domestic market. After we transferred into the massive smartphone market, the Coolpad brand shared a higher reputation and brand recognition among the users. We will continue to achieve measurable progress in expanding our existing markets. We're also going to deepen the penetration into the new overseas markets, and cooperate with more telecommunications carriers for the Coolpad brand becoming more attractive and the solid quality of the Coolpad smartphones, in order to expand the overseas market and our customer base. We will build more Coolpad image shops and 3G specialized outlets in the main municipal cities of China.

In the year of 2013, we will continue to streamline operations, optimize cost structures, enhance risk management, and develop a powerful IT support for our fast growing business. Meanwhile, we will continue to optimize the management of products' quality to equip our smartphones with stronger competitive strengths.

Looking forward, we will continue to leverage innovation and expertise to satisfy diverse consumer needs, enhance core competitive strengths and position in the rapidly evolving global smartphone industry. The smartphone market growth attracts more business attention, and more competitors try to make money from this fast growing segment and expand the scale of their shipments, so the competition will still be fierce. Even though the environment of the smartphone market will be volatile, we will endeavour to keep the average selling price and gross profit margin stable, depending on the famous brand reputation and the diverse affordable product portfolio from high-end to mid-end and low-end smartphones. Through the innovative technologies, the hard-working philosophy, the quick-responded capabilities to the market demands, and the differentiated product positioning, we also see the risk of the increasing competition in the smartphone market, we should work hard to achieve the new record high and stable the gross profit margin in 2013.

THANKS

I would like to extend my sincere appreciation to our management team and 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, customers and suppliers for their long-standing loyalty and support.

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

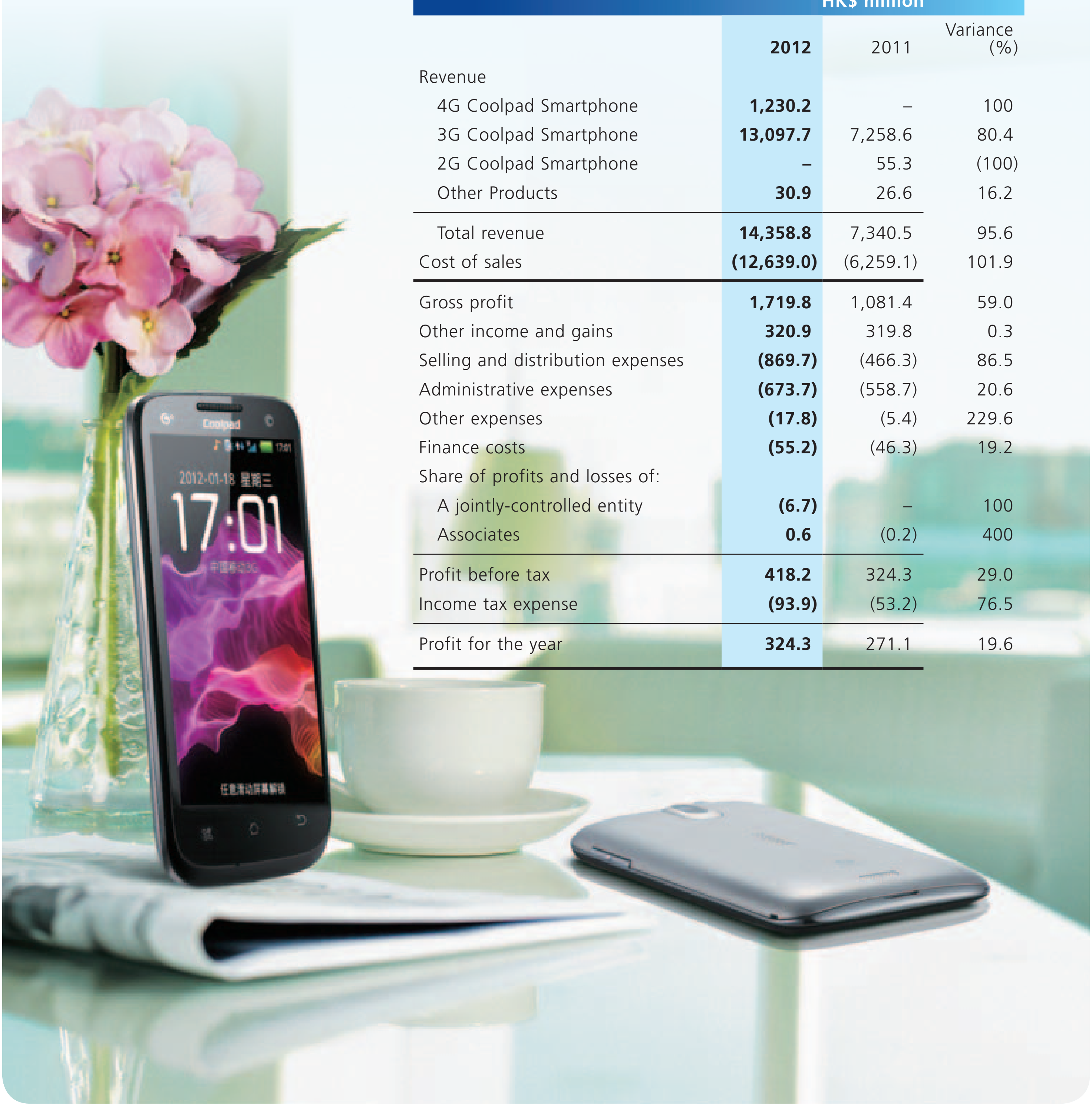
Hong Kong, 20 March 2013


Coolpad
4 inch
創新未來，成就今天
INNOVATION IN THE FUTURE
TODAY'S SUCCESS

Total Revenue HK$14,358.8 Million

The financial data below are extracted from the Group's 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		
	2012	2011	Variance (%)
Revenue			
4G Coolpad Smartphone	**1,230.2**	–	100
3G Coolpad Smartphone	**13,097.7**	7,258.6	80.4
2G Coolpad Smartphone	**–**	55.3	(100)
Other Products	**30.9**	26.6	16.2
Total revenue	**14,358.8**	7,340.5	95.6
Cost of sales	**(12,639.0)**	(6,259.1)	101.9
Gross profit	**1,719.8**	1,081.4	59.0
Other income and gains	**320.9**	319.8	0.3
Selling and distribution expenses	**(869.7)**	(466.3)	86.5
Administrative expenses	**(673.7)**	(558.7)	20.6
Other expenses	**(17.8)**	(5.4)	229.6
Finance costs	**(55.2)**	(46.3)	19.2
Share of profits and losses of:			
A jointly-controlled entity	**(6.7)**	–	100
Associates	**0.6**	(0.2)	400
Profit before tax	**418.2**	324.3	29.0
Income tax expense	**(93.9)**	(53.2)	76.5
Profit for the year	**324.3**	271.1	19.6



MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT

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

	Year Ended 31 December			
	2012		2011	
	Revenue HK$ million	% of revenue	Revenue HK$ million	% of revenue
4G Coolpad smartphone	1,230.2	8.6	–	–
3G Coolpad smartphone	13,097.7	91.2	7,258.6	98.9
2G Coolpad smartphone	–	–	55.3	0.7
Others	30.9	0.2	26.6	0.4
Total	14,358.8	100	7,340.5	100

The Group recorded consolidated revenue for the year ended 31 December 2012 of HK$14,358.8 million, representing a growth of 95.6% as compared with HK$7,340.5 million for the year ended 31 December 2011. The substantial growth of the consolidated revenue in 2012 was mainly driven by the strong increase in the sales of the Group's 3G and 4G Coolpad smartphone as a result of the continued vibrant development of 3G mobile market in Mainland China and the 4G mobile market in America during the year under review.

The revenue from 3G Coolpad smartphone increased by 80.4% to HK$13,097.7 million for the year ended 31 December 2012 as compared with HK$7,258.6 million for year ended 31 December 2011. The significant increase in revenue of 3G Coolpad smartphone was primarily attributable to the high quality and reasonable price of Coolpad new smartphone models and the increase of market demand of the 3G smartphone during the year. So far, the Group's product lines have covered all range of 3G networks, including TD-SCDMA, CDMA-EVDO as well as WCDMA network. The Group ceased to sell 2G smartphone models during the current year. Therefore, the sales of 3G Coolpad smartphone have already become the Group's main revenue stream. Meanwhile, the Group started to launch the 4G FDD-LTE smartphones, which were exported to the American market.

MANAGEMENT DISCUSSION & ANALYSIS

Revenue from the sale of other products increased by HK$4.3 million, or 16.2%, to HK$30.9 million for the year ended 31 December 2012 as compared with HK$26.6 million for the year ended 31 December 2011. The increase in the revenue from the sale of other products during the year under review was mainly attributable to an increase in the sales of Coolpad smartphones' accessories and others.

MANAGEMENT DISCUSSION & ANALYSIS

GROSS PROFIT

	Year Ended 31 December			
	2012		2011	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Gross profit	HK$ million	(%)	HK$ million	(%)
Total	1,719.8	12.0	1,081.4	14.7

The Group's overall gross profit for the year ended 31 December 2012 increased to HK$1,719.8 million, representing an increase of 59.0% as compared with HK$1,081.4 million for the year ended 31 December 2011. The Group's overall gross profit margin for the year ended 31 December 2012 dropped to 12.0%, down 2.7% as compared with 14.7% for the year ended 31 December 2011. The decline in gross profit margin was primarily attributable to the severe competition in the overall smartphone market.

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to approximately HK$320.9 million for the year ended 31 December 2012, representing an increase of 0.3% as compared with HK$319.8 million for the year ended 31 December 2011. This increase was mainly attributable to the increase of the Group's bank interest income, rental income and government grant and subsidies in 2012.

SELLING AND DISTRIBUTION EXPENSES

	Year ended 31 December	
	2012	2011
Selling and distribution expenses (HK$ million)	869.7	466.3
Selling and distribution expenses/Revenue (%)	6.1	6.4

Selling and distribution expenses of the Group for the year ended 31 December 2012 increased to HK$869.7 million, representing an increase of approximately HK$403.4 million, or 86.5%, as compared with HK$466.3 million for the year ended 31 December 2011. The net increase of HK$403.4 million was primarily generated from increased expenditures for marketing, advertising and promotion expenses, and increased salaries of employed salesmen to support product promotion. As a percentage of total revenue, selling and distribution expenses decreased remarkably to 6.1% in 2012 from 6.4% in 2011. The net decrease of 0.3% as a percentage of total revenue primarily reflected that the Group has benefited from the economies of scale as sales volume increased.

MANAGEMENT DISCUSSION & ANALYSIS

ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2012	2011
Administrative expenses (HK$ million)	**673.7**	558.7
Administrative expenses/Revenue (%)	**4.7**	7.6

Administrative expenses increased by 20.6% to HK$673.7 million for the year ended 31 December 2012 from HK$558.7 million for the year ended 31 December 2011. The net increase of HK$115.0 million was primarily generated from increased expenditures on R&D, and increased salaries of employed staff. As a percentage of total revenue, it dropped by 2.9% during the year under review as compared with 7.6% in the year of 2011, reflecting that the Group executed tight control over the administrative expenses.

INCOME TAX EXPENSE

For the year ended 31 December 2012, the Group's income tax expense amounted to HK$93.9 million (2011: HK$53.2 million). The increase in the current year income tax expense was mainly attributable to the increase of the Group's profit before tax.

NET PROFIT

For the year ended 31 December 2012, the Group recorded a net profit of HK$324.3 million, representing an increase of HK$53.2 million, or 19.6%, as compared with HK$271.1 million for the year ended 31 December 2011. The increase in net profit was mainly because of the increase of the sales revenue in 2012.

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2012, 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 2012 amounted to HK$1,273.5 million (2011: HK$1,058.9 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2012, the following assets of the Group were used to secure certain bank borrowings of the Group: (i) investment properties of approximately HK$106.8 million (2011: HK$104.4 million); and (ii) time deposits of approximately HK$133.8 million (2011: HK$325.2 million). As at 31 December 2012, the Group's certain time deposits were also used to secure bills payable, details of which are set out in note 29 to the financial statements.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Highlights for 2012

In the year of 2012, more and more mobile users switched to buy the third-generation (3G) network smartphones in Mainland China, since the telecommunications carriers effectively promoted the 3G business, and the 3G smartphones were becoming more affordable than before. The Group grasped the opportunities of the expansion of the smartphone market, depending on its enriched 3G smartphones mix, the more innovative technologies and the better user experience of these products. The Group got a fruitful year in 2012, achieved a new record of the scale increase, and the reputation of the Group's brand Coolpad became more famous worldwide. According to the report from a third-party market survey firm, the market share of Coolpad smartphones in the whole 3G smartphone market of Mainland China ranked No.4 in the year of 2012, which strengthened the leadership as one of the top smartphone vendors in China.

For the year ended 31 December 2012, the Group had a turnover of approximately HK$14,358.8 million, which increased 95.6% from HK$7,340.5 million in 2011. The fast increase was mostly due to the Group's focus on the mid-end and low-end smartphone market and was largely ascribed to the solid 3G business increase in Mainland China. The net profit of 2012 was approximately HK$324.3 million, which increased by 19.6% from HK$271.1 million in 2011. Gross profit margin for the year 2012 was 12.0%, which dropped by 2.7% from 14.7% in 2011. The drop of gross profit margin was because the competition in the mid-end and low-end smartphone market in Mainland China got intensified in 2012. Basic and diluted earnings per share of the Company reached HK15.39 cents and HK15.12 cents, respectively for the year ended 31 December 2012. The Directors proposed a final dividend of HK3 cents per share for the full year of 2012.

Events

In February 2012, the Group officially attended the Mobile World Congress 2012 held in Barcelona, Spain. Six Coolpad flagship smartphones were demonstrated in this exhibition. In September 2012, the Group attended the 21st PT/EXPO COMM CHINA held in Beijing, and unveiled three new Coolpad Android smartphones. Those events promoted the Coolpad brand to be of higher reputation in the global smartphone market.

Product Development

In the year of 2012, the Group launched a full range of Coolpad smartphones from high-end to mid-end and low-end ones, offering the users a better quality and better radio performance. As one of the few mobile phone vendors who are able to offer any mode of wireless network smartphones worldwide, the Group successfully rolled out the products covering 3G and the fourth-generation (4G) network smartphones to the market. For EVDO-based smartphones, the Group launched 18 new models. For TD-SCDMA-based smartphones, the Group launched 17 new models. For WCDMA-based smartphones, the Group launched 13 new models. The Group also launched a model of 4G FDD-LTE in the American market during 2012. These new models significantly contributed to the strong revenue and market share growth for the year of 2012. Coolpad brand has been widely recognized as one of the Chinese top smartphone brands by its consumers and business partners primarily due to its strong and enriched product mix.

Strategic Progress

Strengthening the R&D capability remained the focus of the Group, which brought the Group the absolute advantages while competing with its rivals in the smartphone market. Through differentiating the functions and features of the Android operating system, and providing the special Coollife UI4.1 user interface on the new models,

MANAGEMENT DISCUSSION & ANALYSIS

the Coolpad smartphones became more competitive and more attractive. The Group also quickly upgraded Android operating system version to the latest one (Jelly Bean), running with the famous Coolpad DNA, such as the dual-mode, dual-standby technology combining two disparate radio technologies, private model guaranteeing the security of the users' private data, Chinese-language handwriting recognition software letting the users input more conveniently. The Coolcloud platform was also upgraded into the latest Coolcloud 3.0 version, which made the data synchronization work of smartphones faster and more effectively, when the users switched to the new Coolpad smartphones. Apart from the synchronization function, Coolpad users could also use the anti-theft, anti-virus, anti-pug etc. security features by Coolcloud to protect the data from being leaked out.

As the high technologies developed fast especially in the hardware segment, such as more effective chipsets, the camera module, and the touch screen technology, the Group responded quickly and rolled out the new models based on the best hardware platforms. In respect of mobile hardware design, the Group collaborated with several 3G mobile chipset providers and some famous mobile industry designers to launch the popular affordable smartphones. In the year of 2012, the Group launched 9 new Dual-core 3G smartphones and 2 new Quad-core 3G smartphones to satisfy the needs of the customers. The Group continued to cooperate with the tier-one chipset suppliers to roll out the FDD-LTE 4G smartphones. Through great build quality, larger screens, solid radio performance and increased responsiveness, the users could enjoy the exciting smartphone experience and the fast speed of the mobile internet while using Coolpad smartphones. Depending on the strong R&D capabilities and the close collaboration with the components suppliers, the Group shortened the go-to-market time of the new models, and speeded up the smartphone upgrade cycle.

As a local brand in Mainland China, the Group knows the demands of the local customers deeply, and could design the excellent software to satisfy the local customers. In the year of 2012, the Group closely collaborated with the local telecommunications carriers to launch the most popular customized models covering EVDO, TD-SCDMA, and WCDMA networks. The Group not only sold the smartphones through the carriers' channel, but also forged relationship with e-commerce partners to pave the way for a new chapter of development in sales through e-commerce channels. Meanwhile, the Group endeavored to export the Coolpad smartphones to overseas market to improve the brand recognition in the global smartphone market. Except for the existing exploited market in India and Taiwan, the Group also successfully penetrated into the American market by the 4G smartphones in 2012. The affordable Coolpad 4G smartphones made more and more American users enjoy the 4G high-speed network, and were sold well in the American market.

In the year of 2012, the Group also focused 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, even though under the intensifying competition and hard pressure during the year. The product quality and the production cost controls were also assured, depending on the improvements of the infrastructure for the product testing and assembly.

Our Outlook for 2013

As the 3G smartphone market in Mainland China is booming in the year of 2013, the Group will continue to increase the shipments volume and capture more market share by the wonderful user experience of Coolpad smartphones. The Group will continuously put more efforts on the innovative technologies, keep close pace with the growth of domestic 3G mobile phone market in the coming future, expand wider overseas markets, and prepare well for the coming 4G market including both the TD-LTE and the FDD-LTE smartphones.

MANAGEMENT DISCUSSION & ANALYSIS

The year of 2013 is the 20th anniversary of the Group. Depending on the innovative notions, the strong R&D capabilities, and the successful transfer of the business, the Group has developed fast since its inception. The innovative technologies and the R&D will still be major aspects to invest. The Group will continue to develop and optimize its standard software and hardware development platform through close cooperation with the industry leading suppliers so as to introduce more feature-rich, ease-to-use Coolpad products and services. As the new technologies in the smartphone field develop fast, and the R&D capability of the Group becomes stronger, the Group will accelerate the product's developing period of the new models for sharing the latest technologies with its users. The Group will continue to grow and strengthen the depth of cooperation with the telecommunications carriers in the field of R&D on next generation network, such as 4G technology of TD-LTE and FDD-LTE, then make sure that Coolpad will be in the tier-1 brands once the carriers start to run the 4G network business, especially for the domestic carriers.

User experience of the smartphone is the key factor to win in this intensifying competitive market. The Group will do its best to build and improve the user experience of Coolpad smartphones, through optimizing interaction industry design (ID), the internal system, the functions and Coollife UI. To satisfy the user demands, more dual-mode dual-standby Coolpad new models will be launched in 2013. The Group will also launch more affordable Dual-core, Quad-core smartphones with higher hardware specifications in the massive market. Since the Group entered into the American 4G smartphone market, the series of the 4G new models based on the FDD-LTE will be strengthened in the year of 2013, and the Group will also prepare well for the TD-LTE products. Meanwhile, the Coolcloud platform will be upgraded much faster, integrated with more useful features, and provide a diverse array of contents and services to the customers, as more and more Coolpad users begin to enroll this platform. The Group will also strengthen the cooperation with the internet companies in terms of the flourish wireless internet age and the change of the user habit surfing the internet.

The Group will continue to execute the global market strategy, while strengthening its hold of the market share in the domestic market. After the Group transferred into the massive smartphone market, the Coolpad brand shared a higher reputation and brand recognition among the users. The Group will continue to achieve measurable progress in expanding its existing markets. The Group is also going to deepen its penetration into the new overseas markets, and cooperate with more telecommunications carriers for the Coolpad brand becoming more attractive and the solid quality of the Coolpad smartphones, in order to expand the overseas market and its customer base. The Group will build more Coolpad image shops and 3G specialized outlets in the main municipal cities of China.

In the year of 2013, the Group will continue to streamline operations, optimize cost structures, enhance risk management, and develop a powerful IT support for its fast growing business. Meanwhile, the Group will continue to optimize the management of products' quality to equip its smartphones with stronger competitive strengths.

Looking forward, the Group will continue to leverage innovation and expertise to satisfy diverse consumer needs, enhance core competitive strengths and position in the rapidly evolving global smartphone industry. The smartphone market growth attracts more business attention, and more competitors try to make money from this fast growing segment and expand the scale of their shipments, so the competition will still be fierce. Even though the environment of the smartphone market will be volatile, the Group will endeavour to keep the average selling price and gross profit margin stable, depending on the famous brand reputation and the diverse affordable product portfolio from high-end to mid-end and low-end smartphones. Through the innovative technologies, the hard-working philosophy, the quick-responded capabilities to the market demands, and the differentiated product positioning, we also see the risk of the increasing competition in the smartphone market, the Group should work hard to achieve the new record high and stable the gross profit margin in 2013.

CORPORATE GOVERNANCE REPORT

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The board (the "Board") of directors 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 2012, 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 eight directors, four of whom are executive directors, and four are independent non-executive directors ("INEDs"). The composition of the Board is set out as follows:

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR:

Ms. YANG Xiao (resigned on 18 June 2012)

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 27 to 29 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 former 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 2012, the Board held four meetings. Attendance of individual directors at the Board meetings in 2012 is as follows:

Name of directors	Number of meetings attended
Executive Directors	
Mr. GUO Deying *(Chairman)*	3/4
Mr. JIANG Chao	4/4
Mr. LI Wang	4/4
Mr. LI Bin	4/4
Non-executive Director:	
Ms. YANG Xiao (resigned on 18 June 2012)	1/4
Independent Non-executive Directors	
Mr. CHAN King Chung	4/4
Dr. HUANG Dazhan	4/4
Mr. YANG Xianzu	4/4
Mr. XIE Weixin	3/4

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 2012 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

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors in the form of seminar and provision of training materials. A summary of training received by Directors during the year ended 31 December 2012 according to the records provided by the Directors is as follows:

Name of directors	Training on corporate governance, Directors' responsibilities and other relevant topics
Executive Directors	
Mr. GUO Deying	√
Mr. JIANG Chao	√
Mr. LI Wang	√
Mr. LI Bin	√
Independent Non-executive Directors	
Mr. CHAN King Chung	√
Dr. HUANG Dazhan	√
Mr. YANG Xianzu	√
Mr. XIE Weixin	√

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.

CORPORATE GOVERNANCE REPORT

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 2012, the Audit Committee held three meetings. The attendance record of each member of the Audit Committee is set out below:

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

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

CORPORATE 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 FUNCTIONS

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company's policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company's code of conduct; and reviewing the Company's compliance with the Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

A Nomination Committee was established during the year of 2012 which comprises one executive director and two independent non-executive 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 held one meeting during the year ended 31 December 2012. The attendance record of the Nomination Committee meeting is set out below:

Name	Number of meetings attended
Mr. GUO Deying *(Chairman)*	1/1
Mr. XIE Weixin	1/1
Mr. YANG Xianzu	1/1

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$3.3 million was charged by Ernst & Young for its audit services provided to the Group in 2012 (2011: HK$3.1 million). The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditors' Report" on page 42 of this report.

During the year, HK$1,229,000 was incurred as remuneration to Ernst & Young for the provision of non-audit services to the Group.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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.

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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 48, 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 20 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 former non-executive Director.

Mr. JIANG Chao

Mr. JIANG Chao, aged 42, 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 20 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 42, 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 14 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 40, 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 14 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 (resigned on 18 June 2012)

Ms. YANG Xiao, aged 44, was a non-executive Director and resigned on 18 June, 2012. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Chung

Mr. CHAN King Chung, aged 50, 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 55, 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 71, 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 73, 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 40 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 50, is a deputy general manager of the Group and is responsible for overseas marketing sales functions. He has about 25 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 50, is a deputy general manager of the Group and is responsible for the human resources and administration functions. Mr. ZHANG has 23 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 49, 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 24 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 2012.

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 2012 and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 44 to 126.

The Directors recommend the payment of a final dividend of HK3.0 cents per ordinary share for the year 2012 to shareholders as shown on the register of members on 31 May 2013. 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 Thursday, 23 May 2013. 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 20 May 2013 to 23 May 2013 (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 16 May 2013.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 29 May 2013 to 31 May 2013, 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 2013. The final dividend will be paid on or about 14 June 2013 to the shareholders whose names appear on the register of members at the close of business on 31 May 2013.

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				
	2012*	2011*	2010*	2009*	2008*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**14,358,830**	7,340,495	4,592,699	2,604,865	1,007,135
Profit/(loss) before tax	**418,160**	324,297	545,101	263,579	(64,307)
Tax	**(93,857)**	(53,228)	(64,836)	(23,574)	(11,769)
Profit/(loss) for the year	**324,303**	271,069	480,265	240,005	(76,076)
Attributable to owners of the Company	**325,581**	271,364	480,265	240,005	(76,076)

	As at 31 December				
	2012*	2011*	2010*	2009*	2008*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**1,244,373**	1,151,664	951,550	831,430	722,360
Current assets	**6,859,028**	6,379,541	3,301,409	1,418,416	862,915
Non-current liabilities	**98,645**	143,212	180,318	245,096	225,480
Current liabilities	**5,591,769**	5,198,303	2,652,149	1,125,624	718,696
Net assets	**2,412,987**	2,189,690	1,420,492	879,126	641,099

* 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	34,368.83 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 34 and 35 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 36 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 2012, the Company repurchased a total of 71,792,000 of its own ordinary shares on the Stock Exchange at a net aggregate consideration of approximately HK$97,150,000. 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 2012 were as follows:

	Number of Shares repurchased	Price per share Highest	Lowest	Total price paid
		HK$	HK$	HK$'000
June 2012	30,028,000	1.32	1.13	37,625
July 2012	35,376,000	1.47	1.28	49,291
September 2012	6,388,000	1.63	1.41	10,234
	71,792,000	1.63	1.13	97,150

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$523,502,000. The Board recommended a final dividend proposal of HK3 cents per ordinary share for the year 2012. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$431,507,000 in total as at 31 December 2012, 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 79.3% of the total sales for the year and sales to the largest customer included therein amounted to 28.1%. Purchases from the Group's five largest suppliers accounted for approximately 35.3% of the total purchases for the year ended 31 December 2012 and purchases from the largest supplier included therein amounted to 13.6%.

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

NON-EXECUTIVE DIRECTOR:

Ms. YANG Xiao (resigned on 18 June 2012)

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. JIANG Chao, Mr. CHAN King Chung and Mr. YANG Xianzu will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting (the "AGM") of the Company.

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

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 27 to 29 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 2012 for an initial term of three years commencing from 7 April 2012.

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 2012. The remaining independent non-executive Directors have entered into service agreements with the Company for a term of one year commencing from 21 November 2012.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 26 and 40 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2012, 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	11,628,000	–	831,171,248	–	842,799,248	40.24
Mr. JIANG Chao	*3*	–	–	–	11,628,000	–	–	11,628,000	0.56
Mr. LI Bin	*4*	–	–	–	–	–	9,348,000	9,348,000	0.45
Mr. LI Wang	*4*	5,020,000	–	–	–	–	4,800,000	9,820,000	0.47
Mr. CHAN King Chung	*4*	96,000	–	–	–	–	96,000	192,000	0.01
Mr. HUANG Dazhan	*4*	48,000	–	–	–	–	96,000	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:

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

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 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 11,628,000 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 11,628,000 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 2012, 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	39.68
Barrie Bay Limited ("Barrie Bay")	*2*	831,171,248	Interest of controlled corporation	831,171,248	39.68
HSBC International Trustee Limited ("HSBC Trustee")	*2*	831,171,248	Trustee	831,171,248	39.68
Ms. YANG Xiao	*1*	831,171,248	Founder of a trust	831,171,248	39.68

Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Unit Trust is a unit trust held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. GUO and Ms. YANG and the discretionary objects of which include the 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 2012, 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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 35 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 2012	Grant during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2012	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Employees									
In aggregate – granted on 18 September 2007	8,586,000	–	4,100,000	3,846,000	640,000	–	18-09-07	18-09-08 to 17-09-12	1.415
In aggregate – granted on 18 September 2007	2,832,000	–	816,000	–	–	2,016,000	18-09-07	18-09-10 to 17-09-14	1.415
In aggregate – granted on 20 May 2008	7,556,000	–	4,436,000	–	1,388,000	1,732,000	20-05-08	20-05-09 to 19-05-13	0.674
In aggregate – granted on 20 May 2008	3,580,000	–	968,000	–	216,000	2,396,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 20 May 2008	11,256,000	–	3,058,000	–	1,344,000	6,854,000	20-05-08	20-05-11 to 19-05-15	0.674
In aggregate – granted on 20 May 2008	3,488,000	–	–	–	96,000	3,392,000	20-05-08	20-05-14 to 19-05-18	0.674
In aggregate – granted on 27 Feb 2009	3,488,000	–	996,000	–	336,000	2,156,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 Feb 2009	2,337,000	–	1,520,000	817,000	–	–	27-02-09	27-02-10 to 26-02-12	0.397
In aggregate – granted on 30 Jun 2010	16,904,000	–	–	–	5,752,000	11,152,000	28-06-10	28-06-11 to 27-06-15	3.24
In aggregate – granted on 30 Jun 2010	19,704,000	–	–	–	7,000,000	12,704,000	28-06-10	28-06-12 to 27-06-16	3.24
In aggregate – granted on 30 Jun 2010	15,772,000	–	–	–	2,660,000	13,112,000	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	–	1,888,000	–	12,364,000	36,092,000	12-07-11	12-07-12 to 11-07-16	1.678
In aggregate – granted on 12 July 2011	780,000	–	–	–	492,000	288,000	12-07-11	12-07-14 to 11-07-18	1.678
In aggregate – granted on 27 Dec 2012	–	43,520,000	–	–	–	43,520,000	27-12-12	27-12-13 to 27-12-17	2.328
In aggregate – granted on 27 Dec 2012	–	2,976,000	–	–	–	2,976,000	27-12-12	27-12-15 to 27-12-19	2.328
Directors									
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	2,748,000	–	–	–	–	2,748,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 27 Feb 2009	624,000	–	48,000	–	–	576,000	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	12-7-12 to 11-07-16	1.678
In aggregate – granted on 27 Dec 2012	–	2,000,000	–	–	–	2,000,000	27-12-12	27-12-15 to 27-12-19	2.328
Total	169,899,000	48,496,000	18,830,000	4,663,000	32,288,000	162,614,000			

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$58,041,000 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	48,496,000	58,041,000

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 volatility and expected dividend yield. 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 35 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 2012.

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.

REPORT OF THE DIRECTORS

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 United States dollars. Exchange rate fluctuations between Renminbi and United States dollars may affect the Group's performance and asset value. The Group has not entered into any derivative contracts to hedge against the risk for the year of 2012.

EMPLOYEES AND REMUNERATION POLICY

During the year ended 31 December 2012, the Group's staff costs (including directors' remuneration) amounted to approximately HK$686.2 million (2011: HK$535.8 million). The remuneration of the Group's employees was commensurate with their responsibilities and market rates, with discretionary bonuses and training given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2012.

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 2013, Hong Kong

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of China Wireless Technologies Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2012 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 2012, 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

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

20 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**14,358,830**	7,340,495
Cost of sales		**(12,639,067)**	(6,259,135)
Gross profit		**1,719,763**	1,081,360
Other income and gains	5	**320,915**	319,758
Selling and distribution expenses		**(869,704)**	(466,255)
Administrative expenses		**(673,658)**	(558,702)
Other expenses		**(17,823)**	(5,345)
Finance costs	7	**(55,200)**	(46,303)
Share of profits and losses of:			
A jointly-controlled entity		**(6,684)**	–
Associates		**551**	(216)
PROFIT BEFORE TAX	6	**418,160**	324,297
Income tax expense	10	**(93,857)**	(53,228)
PROFIT FOR THE YEAR		**324,303**	271,069
OTHER COMPREHENSIVE INCOME			
Gain/(loss) on property revaluation		**(7,827)**	40,855
Income tax effect	33	**1,542**	(6,531)
		(6,285)	34,324
Exchange differences on translation of foreign operations		**6,766**	77,826
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**481**	112,150
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**324,784**	383,219
PROFIT FOR THE YEAR			
Attributable to:			
Owners of the Company	11	**325,581**	271,364
Non-controlling interests		**(1,278)**	(295)
		324,303	271,069

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
Attributable to:			
Owners of the Company		**326,062**	383,514
Non-controlling interests		**(1,278)**	(295)
		324,784	383,219
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*13*		
Basic		**15.39 cents**	12.39 cents
Diluted		**15.12 cents**	12.15 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**536,973**	527,097
Investment properties	15	**309,690**	334,952
Prepaid land lease payments	16	**125,405**	110,222
Intangible assets	17	**160,858**	112,491
Investment in a jointly-controlled entity	19	**6,533**	–
Investments in associates	20	**52,787**	34,523
Available-for-sale investment	21	**24,426**	11,102
Other non-current assets	25	**23,755**	8,374
Deferred tax assets	33	**3,946**	12,903
Total non-current assets		**1,244,373**	1,151,664
CURRENT ASSETS			
Inventories	22	**1,811,233**	1,668,545
Trade receivables	23	**2,183,160**	1,571,749
Bills receivable	24	**233,055**	685,276
Prepayments, deposits and other receivables	25	**648,445**	314,452
Due from directors	26	**–**	655
Pledged deposits	27	**709,595**	1,080,007
Cash and cash equivalents	27	**1,273,540**	1,058,857
Total current assets		**6,859,028**	6,379,541
CURRENT LIABILITIES			
Trade payables	28	**1,742,283**	1,377,469
Bills payable	29	**2,080,461**	1,615,658
Other payables and accruals	30	**1,170,201**	981,719
Derivative financial instruments	31	**–**	8,377
Interest-bearing bank borrowings	32	**535,950**	1,190,094
Due to an associate	40(a)	**7,518**	–
Tax payable		**55,356**	24,986
Total current liabilities		**5,591,769**	5,198,303
NET CURRENT ASSETS		**1,267,259**	1,181,238
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,511,632**	2,332,902

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,511,632**	2,332,902
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*32*	**23,635**	67,843
Deferred tax liabilities	*33*	**62,154**	60,838
Other non-current liabilities		**12,856**	14,531
Total non-current liabilities		**98,645**	143,212
Net assets		**2,412,987**	2,189,690
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*34*	**20,944**	21,474
Shares held for the Share Award Plan	*36*	**(240)**	(321)
Reserves		**2,326,200**	2,121,007
Proposed final dividend	*12*	**62,836**	43,005
		2,409,740	2,185,165
Non-controlling interests		**3,247**	4,525
Total equity		**2,412,987**	2,189,690

GUO Deying
Director

JIANG Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		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:																
Gain 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 and paid		–	–	–	–	–	–	–	–	–	–	–	(112,959)	(112,959)	–	(112,959)
Difference between the proposed final 2010 dividend and the actual dividend paid		–	–	–	–	–	–	–	–	–	–	(242)	242	–	–	–
Issue of shares	34	1,602	676,084	–	–	–	–	(2,579)	–	–	–	–	–	675,107	–	675,107
Repurchase of shares	34	(1,152)	(189,112)	–	–	–	–	–	–	1,152	–	(1,152)	–	(190,264)	–	(190,264)
Equity-settled share option arrangements	35	–	–	–	–	–	–	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 a non-controlling equity holder		–	–	–	–	–	–	–	–	–	–	–	–	–	935	935
Appropriation to statutory reserve	37 (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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		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 2012		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
Profit for the year		-	-	-	-	-	-	-	-	-	-	325,581	-	325,581	(1,278)	324,303
Other comprehensive income for the year:																
Loss on property revaluation, net of tax		-	-	-	-	(6,285)	-	-	-	-	-	-	-	(6,285)	-	(6,285)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	6,766	-	-	6,766	-	6,766
Total comprehensive income for the year		-	-	-	-	(6,285)	-	-	-	-	6,766	325,581	-	326,062	(1,278)	324,784
Final 2011 dividend declared and paid		-	-	-	-	-	-	-	-	-	-	-	(43,008)	(43,008)	-	(43,008)
Difference between the proposed final 2011 dividend and the actual dividend paid		-	-	-	-	-	-	-	-	-	-	(3)	3	-	-	-
Share options exercised	34	188	27,027	-	-	-	-	(8,955)	-	-	-	-	-	18,260	-	18,260
Disposal of a revalued asset		-	-	-	-	(6,133)	-	-	-	-	-	6,133	-	-	-	-
Repurchase of shares	34	(718)	(96,432)	-	-	-	-	-	-	718	-	(718)	-	(97,150)	-	(97,150)
Equity-settled share option arrangements	35	-	-	-	-	-	-	19,847	-	-	-	-	-	19,847	-	19,847
Transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	-	-	-	(7,206)	-	-	-	7,206	-	-	-	-
Shares awarded under the Share Award Plan	36	-	-	81	-	-	-	-	483	-	-	-	-	564	-	564
Appropriation to statutory reserve	37 (a)	-	-	-	-	-	44,243	-	-	-	-	(44,243)	-	-	-	-
Proposed final 2012 dividend	12	-	(62,836)	-	-	-	-	-	-	-	-	-	62,836	-	-	-
At 31 December 2012		20,944	386,515*	(240)	390*	93,073*	91,991*	69,170*	41,787*	1,870*	217,549*	1,423,855*	62,836	2,409,740	3,247	2,412,987

* These reserve accounts comprise the consolidated reserves of HK$2,326,200,000 (2011: HK$2,121,007,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**418,160**	324,297
Adjustments for:			
Bank interest income	*5*	**(61,572)**	(31,178)
Finance costs	*7*	**55,200**	46,303
Share of loss of a jointly-controlled entity		**6,684**	–
Share of profits and losses of associates		**(551)**	216
Depreciation	*6*	**41,503**	40,380
Changes in fair value of investment properties	*5*	**(10,428)**	(15,024)
Amortisation of patents and licences	*6*	**28,441**	8,020
Amortisation of product development costs	*6*	**44,793**	24,876
Recognition of prepaid land lease payments	*6*	**2,506**	1,934
Gain on disposal of a piece of land	*5*	**(276)**	–
Loss on disposal of items of property, plant and equipment	*6*	**5,170**	661
Impairment of trade receivables	*6*	**3,762**	922
Write-down of inventories to net realisable value	*6*	**95,673**	24,227
Equity-settled share option expense	*6*	**19,847**	34,611
Equity-settled share award plan expense	*6*	**564**	–
Fair value gains of derivative instruments			
– transactions not qualifying as hedges	*5*	**(7,239)**	(2,319)
		642,237	457,926
Increase in inventories		**(239,512)**	(792,983)
Increase in trade receivables		**(618,105)**	(1,308,347)
Decrease in bills receivable		**451,926**	23,755
Increase in prepayments, deposits and other receivables		**(334,419)**	(126,072)
Decrease/(increase) in amounts due from directors		**655**	(46)
Increase in other non-current assets		**(4,254)**	(4,203)
Increase in trade payables		**367,408**	764,753
Increase in bills payable		**467,925**	871,423
Increase in other payables and accruals		**224,468**	196,682
Increase in an amount due to an associate		**7,533**	–
Increase/(decrease) in other non-current liabilities		**(1,658)**	9,013
Cash generated from operations		**964,204**	91,901
Tax paid		**(52,125)**	(62,443)
Net cash flows from operating activities		**912,079**	29,458

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Net cash flows from operating activities		**912,079**	29,458
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		**61,572**	31,178
Purchases of items of property, plant and equipment		**(109,413)**	(77,854)
Proceeds from disposal of a piece of land		**4,943**	–
Proceeds from disposal of items of property, plant and equipment		**49,363**	3,159
Additions to product development costs	*17*	**(70,685)**	(43,799)
Additions to patents and licences	*17*	**(38,747)**	(3,412)
Additions to computer software	*17*	**(10,664)**	–
Additions to prepaid land lease payments	*16*	**(21,544)**	(1,001)
Investment in a jointly-controlled-entity		**(12,873)**	–
Investments in associates		**(17,415)**	(33,720)
Purchase of an available-for-sale investment		**(13,076)**	(10,839)
Settlement of derivative financial instruments		**(1,138)**	–
Decrease/(increase) in pledged deposits		**369,726**	(315,999)
Net cash flows from/(used in) investing activities		**190,049**	(452,287)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		**18,260**	675,107
Repurchase of shares	*34(e)*	**(97,150)**	(190,264)
New bank loans		**4,023,894**	2,302,934
Repayment of bank loans		**(4,725,969)**	(1,811,518)
Capital contribution by a non-controlling equity holder		**–**	935
Interest paid		**(61,944)**	(38,238)
Dividends paid		**(43,008)**	(134,410)
Net cash flows from/(used in) financing activities		**(885,917)**	804,546
NET INCREASE IN CASH AND CASH EQUIVALENTS		**216,211**	381,717
Cash and cash equivalents at beginning of year		**1,058,857**	641,895
Effect of foreign exchange rate changes, net		**(1,528)**	35,245
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,273,540**	1,058,857
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*27*	**1,273,540**	1,058,857

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**60**	153
Investments in subsidiaries	18	**133,520**	114,973
Total non-current assets		**133,580**	115,126
CURRENT ASSETS			
Due from subsidiaries	18	**252,336**	229,709
Trade receivables	23	**4,070**	3,925
Bills receivable	24	**–**	403,145
Prepayments, deposits and other receivables	25	**4,437**	12,280
Pledged deposits	27	**124,394**	283,705
Cash and cash equivalents	27	**154,174**	127,922
Total current assets		**539,411**	1,060,686
CURRENT LIABILITIES			
Due to subsidiaries	18	**7,246**	–
Other payables and accruals	30	**8,324**	13,650
Derivative financial instruments	31	**–**	7,490
Interest-bearing bank borrowings	32	**–**	384,216
Total current liabilities		**15,570**	405,356
NET CURRENT ASSETS		**523,841**	655,330
Net assets		**657,421**	770,456
EQUITY			
Issued capital	34	**20,944**	21,474
Shares held for the Share Award Plan		**(240)**	(321)
Reserves	37(b)	**573,881**	706,298
Proposed final dividend	12	**62,836**	43,005
Total equity		**657,421**	770,456

GUO Deying
Director

JIANG Chao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 classified as property, plant and equipment 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 2012. 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 it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and 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 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 has been rebutted by the Group as the Group's investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly deferred tax has been determined on the basis of recovery through use. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) *– Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

The directors anticipate that the application of other new and revised HKFRSs will have no material impact on the results and financial position of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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.

JOINT VENTURES

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY-CONTROLLED ENTITIES

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entity is included in the consolidated profit or loss and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entity is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

An assessment is made at the end of each reporting period as to whether there is an 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.

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 or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) 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 2012

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 asset 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	4.5%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and equipment	18% to 30%
Motor vehicles	18%

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 including 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 2012

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 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 three or 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.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING LEASES

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

INVESTMENTS 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.

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 other income and gains 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

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 profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

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 profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Financial assets carried at amortised cost (continued)

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 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 and all collateral has been realised or has been transferred to the Group.

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 write-off is later recovered, the recovery is credited to other expenses in the profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial investment (continued)

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.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

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 in HKAS 39 are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES (CONTINUED)

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 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.

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 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.

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 to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

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, associates and joint ventures, 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, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT GRANTS AND SUBSIDIES

Grants and subsidies are recognised at their fair value where there is reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

SHARE-BASED PAYMENTS

The Company operates a share option scheme and a share award plan 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 payments, 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, further details of which are given in note 35 to the financial statements. For grant of award shares, the fair value is determined by the market price of the Company's shares at the grant date, further details of which are given in note 36 to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS (CONTINUED)

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, 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.

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. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

BORROWING COSTS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained profits or 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value 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 the item 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 the 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 prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of the subsidiaries in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Income tax

Deferred tax is provided using the liability method, on all temporary differences as 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 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 tax charge and deferred tax liability would have been increased by the same amount of approximately HK$193,966,000 (2011: HK$116,301,000).

The Group's investment properties at fair value are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are 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 2012, the best estimate of the carrying amount of provision for product warranties was HK$59,573,000 (2011: HK$41,118,000) (note 30).

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 2012, the best estimate of the carrying amount of capitalised product development costs was HK$120,188,000 (2011: HK$93,201,000) (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/write-back in the period in which such estimate has been changed. At 31 December 2012, the carrying amount of inventories was approximately HK$1,811,233,000 (2011: HK$1,668,545,000) after netting off the allowance for inventories of approximately HK$161,224,000 (2011: HK$63,880,000).

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.

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 2012, the provision recognised for trade receivables was HK$3,866,000 (2011: HK$1,662,000) (note 23).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

Deferred tax assets

Deferred tax assets are recognised for 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 2012 was HK$183,035,000 (2011: HK$320,802,000). Further details are contained in note 33 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its 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, share of loss of a jointly-controlled entity, share of profits and losses of associates and finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, deferred tax assets, an available-for-sale investment, an investment in a jointly-controlled entity and investments in associates as these assets are managed on a group basis.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2012

	Mobile phone HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	14,358,830	–	14,358,830
Other revenue and gains	212,679	46,664	259,343
Total	14,571,509	46,664	14,618,173
Segment results	385,783	41,883	427,666
Reconciliation:			
Interest income			61,572
Share of loss of a jointly-controlled entity			(6,684)
Share of profits of associates			551
Corporate and other unallocated expenses			(9,745)
Finance costs			(55,200)
Profit before tax			418,160
Segment assets	5,708,816	323,758	6,032,574
Reconciliation:			
Investment in a jointly-controlled entity			6,533
Investments in associates			52,787
Corporate and other unallocated assets			2,011,507
Total assets			8,103,401
Segment liabilities	4,997,921	7,880	5,005,801
Reconciliation:			
Corporate and other unallocated liabilities			684,613
Total liabilities			5,690,414
Other segment information:			
Impairment of trade receivables	3,762	–	3,762
Write-down of inventories to net realisable value	95,673	–	95,673
Fair value gains on investment properties	–	10,428	10,428
Product warranty provision	92,702	–	92,702
Depreciation and amortisation	116,999	244	117,243
Capital expenditure*	212,318	–	212,318

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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
Share of losses of associates			(216)
Corporate and other unallocated expenses			(5,345)
Finance costs			(46,303)
Profit before tax			324,297
Segment assets	4,981,549	352,264	5,333,813
Reconciliation:			
Investments in associates			34,523
Corporate and other unallocated assets			2,162,869
Total assets			7,531,205
Segment liabilities	3,982,247	7,130	3,989,377
Reconciliation:			
Corporate and other unallocated liabilities			1,352,138
Total liabilities			5,341,515
Other segment information:			
Impairment of trade receivables	922	–	922
Write-down of inventories to net realisable value	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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

4. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	2012 **HK$'000**	2011 HK$'000
Mainland China	**13,098,319**	7,285,899
Overseas	**1,260,511**	54,596
	14,358,830	7,340,495

The revenue information above is based on the locations of the customers.

(b) *Non-current assets*

	2012 **HK$'000**	2011 HK$'000
Mainland China	**1,233,294**	1,138,608
Overseas	**7,133**	153
	1,240,427	1,138,761

The non-current asset information above is based on the locations of the assets excluding deferred tax assets.

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from major customers, each of which amounted to 10% or more of the Group's revenue, is as follows:

	Operating segment	**2012** **HK$'000**	2011 HK$'000
Customer A	Mobile phone	**4,037,160**	n.a.
Customer B	Mobile phone	**3,070,609**	1,260,791
Customer C	Mobile phone	**2,542,080**	1,555,006
Customer D	Mobile phone	**n.a.**	937,099

n.a. Less than 10% of the Group's revenue

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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.

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

	Note	**2012 HK$'000**	2011 HK$'000
Revenue			
Sale of mobile phones		**14,358,830**	7,340,495
Other income			
Bank interest income		**61,572**	31,178
Government grants and subsidies*		**144,213**	134,373
Gross rental income		**36,236**	31,335
Others		**60,951**	59,989
		302,972	256,875
Gains			
Foreign exchange gains, net		**–**	45,540
Fair value gains on derivative financial instruments			
– transactions not qualifying as hedges	*31*	**7,239**	2,319
Gain on disposal of a piece of land		**276**	–
Fair value gains on investment properties		**10,428**	15,024
		17,943	62,883
		320,915	319,758

* Government grants and subsidies represented refunds of VAT received from a tax bureau and 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 and subsidies.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

6. PROFIT BEFORE TAX

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold		**12,543,394**	6,234,908
Depreciation	*14*	**41,503**	40,380
Amortisation of patents and licences*	*17*	**28,441**	8,020
Amortisation of prepaid land lease payments	*16*	**2,506**	1,934
Research and development costs*:			
Product development costs amortised	*17*	**44,793**	24,876
Current year expenditure		**325,774**	217,926
		370,567	242,802
Operating lease rental		**28,607**	19,018
Auditors' remuneration		**3,258**	3,103
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**548,347**	420,063
Staff welfare expenses		**46,440**	33,898
Pension scheme contributions (defined contribution scheme)		**71,000**	47,251
Equity-settled share option expense	*35*	**19,847**	34,611
Equity-settled share award plan expense	*36*	**564**	–
		686,198	535,823
Impairment of trade receivables	*23*	**3,762**	922
Write-down of inventories to net realisable value		**95,673**	24,227
Direct operating expenses arising on rental-earning investment properties		**4,781**	3,451
Product warranty provision	*30*	**92,702**	62,495
Loss on disposal of items of property, plant and equipment		**5,170**	661
Foreign exchange losses, net		**4,316**	–

* Included in "Administrative expenses" in the consolidated profit or loss

NOTES TO FINANCIAL STATEMENTS

31 December 2012

7. FINANCE COSTS

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on:		
Bank loans	**51,497**	39,252
Discounted trade and bills receivables	**3,703**	7,051
	55,200	46,303

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") (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Fees	**536**	530
Other emoluments:		
Salaries, allowances and benefits in kind	**14,374**	12,630
Performance related bonuses	**1,868**	336
Equity-settled share option expense	**1,864**	1,744
Pension scheme contributions	**108**	95
	18,214	14,805
	18,750	15,335

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 35 to the financial statements. The fair value of such options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2012			
Dr. HUANG Dazhan	**120**	**3**	**123**
Mr. XIE Weixin	**148**	**2**	**150**
Mr. CHAN King Chung	**120**	**3**	**123**
Mr. YANG Xianzu	**148**	**2**	**150**
	536	**10**	**546**
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

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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
2012					
Executive directors:					
Mr. GUO Deying	**6,400**	**159**	**–**	**24**	**6,583**
Mr. JIANG Chao	**2,953**	**43**	**–**	**24**	**3,020**
Mr. LI Wang	**2,215**	**904**	**922**	**24**	**4,065**
Mr. LI Bin	**2,215**	**730**	**932**	**24**	**3,901**
	13,783	**1,836**	**1,854**	**96**	**17,569**
Non-executive director:					
Ms. YANG Xiao*	**591**	**32**	**–**	**12**	**635**
	14,374	**1,868**	**1,854**	**108**	**18,204**

* Resigned on 18 June 2012

	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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2011: five directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2011: None) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,323**	–
Performance related bonuses	**872**	–
Equity-settled share option expense	**–**	–
Pension scheme contributions	**31**	–
	2,226	–

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 (2011: 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.

	2012	2011
	HK$'000	HK$'000
Group:		
Current – Mainland China		
Charge for the year	**89,292**	34,884
Overprovision in prior years	**(6,796)**	(612)
Deferred *(note 33)*	**11,361**	18,956
Total tax charge for the year	**93,857**	53,228

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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	
	2012	2011
	HK$'000	HK$'000
Profit before tax	**418,160**	324,297
Tax at the statutory tax rate of 25%	**104,540**	81,074
Lower tax rates for specific provinces or enacted by local authorities	**(52,192)**	(86,832)
Effect of increase in tax rates on deferred tax	**1,002**	5,154
Adjustments in respect of current tax of previous periods	**(6,796)**	(612)
Results attributable to associates	**(82)**	32
Income not subject to tax	**(1,291)**	(14,186)
Expenses not deductible for tax	**16,083**	16,381
Additional deductible research and development expenses	**(13,036)**	(14,435)
Tax losses utilised from previous periods	**(19,782)**	–
Temporary differences not recognised	**49,095**	23,783
Tax losses not recognised	**16,316**	42,869
Tax charge at the Group's effective rate	**93,857**	53,228
The Group's effective income tax rate	**22.4%**	16.4%

The share of tax attributable to associates amounting to HK$104,000 (2011: HK$1,000) is included in "Share of profits and losses of associates" in the consolidated statement of comprehensive income.

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

(a) Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad"), the Company's wholly-owned subsidiary, was assessed as a high-technology enterprise and was subject to CIT at a rate of 15% for the year ended 31 December 2012. In addition, Shenzhen Coolpad has been assessed as a key software developer within the state plan for 2011 and 2012 and was entitled to a reduction in the applicable CIT rate for the year ended 31 December 2011, retrospectively, and for the year ended 31 December 2012. In this regard, Shenzhen Coolpad was subject to CIT at a reduced rate of 10% for each of the two years ended 31 December 2011 and 2012.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

10. INCOME TAX EXPENSE (CONTINUED)

(b) Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen"), the Company's wholly-owned subsidiary, was assessed as a high-technology enterprise and was subject to CIT at a rate of 15% for the year ended 31 December 2012.

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

(d) 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 subject to CIT at a rate of 12.5% for the year ended 31 December 2012.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$11,548,000 (2011: a profit of HK$11,930,000) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDENDS

	2012 **HK$'000**	2011 HK$'000
Interim – Nil (2011: HK1 cent) per ordinary share	**–**	21,451
Proposed final – HK3 cents (2011: HK2 cents) per ordinary share	**62,836**	43,005
	62,836	64,456

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 2012

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 2,114,853,935 (2011: 2,190,412,197) 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:

	2012 HK$'000	2011 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**325,581**	271,364

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year	**2,116,093,003**	2,192,016,197
Weighted average number of shares purchased for the Share Award Plan	**(1,239,068)**	(1,604,000)
Adjusted weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,114,853,935**	2,190,412,197
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**38,156,393**	42,754,598
	2,153,010,328	2,233,166,795

NOTES TO FINANCIAL STATEMENTS

31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	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 2012							
Cost or valuation:							
At 1 January 2012		380,839	3,855	119,476	10,016	93,653	607,839
Additions		–	–	26,753	3,440	40,485	70,678
Transferred from investment properties	15	38,194	–	–	–	–	38,194
Deficit on revaluation		(7,827)	–	–	–	–	(7,827)
Disposals		(23,150)	–	(11,002)	(2,315)	(27,095)	(63,562)
Transfers		41,569	12,389	19,136	–	(73,094)	–
Exchange realignment		3,827	179	1,423	94	407	5,930
At 31 December 2012		433,452	16,423	155,786	11,235	34,356	651,252
Accumulated depreciation:							
At 1 January 2012		4,668	1,799	68,122	6,153	–	80,742
Depreciation provided during the year		17,570	3,501	18,721	1,711	–	41,503
Disposals		(154)	–	(6,804)	(2,071)	–	(9,029)
Exchange realignment		245	57	716	45	–	1,063
At 31 December 2012		22,329	5,357	80,755	5,838	–	114,279
Net book value:							
At 31 December 2012		411,123	11,066	75,031	5,397	34,356	536,973
Analysis of cost or valuation:							
At cost		4,450	16,423	155,786	11,235	34,356	222,250
At valuation		429,002	–	–	–	–	429,002
		433,452	16,423	155,786	11,235	34,356	651,252

At 31 December 2012, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$57,095,000 (2011: HK$55,491,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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$429,002,000 based on their existing use. A revaluation deficit, net of tax, of HK$6,285,000, resulting from the above valuations, has been credited to other comprehensive income.

Company

	Motor vehicles HK$'000
31 December 2012	
Cost:	
At 1 January 2012 and 31 December 2012	**518**
Accumulated depreciation:	
At 1 January 2012	**365**
Depreciation provided during the year	**93**
At 31 December 2012	**458**
Net book value:	
At 31 December 2012	**60**
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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

15. INVESTMENT PROPERTIES

		Group	
		2012	2011
	Note	**HK$'000**	HK$'000
Carrying amount at 1 January		**334,952**	304,456
Net gain from a fair value adjustment		**10,428**	15,024
Transfer to owner-occupied property	*14*	**(38,194)**	–
Exchange realignment		**2,504**	15,472
Carrying amount at 31 December		**309,690**	334,952

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

The Group's investment properties were revalued on 31 December 2012 by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$309,690,000 on an open market, existing use basis.

At 31 December 2012, certain of the Group's investment properties with a carrying value of approximately HK$106,794,000 (2011: HK$104,396,000) were pledged to secure general banking facilities granted to the Group (note 32).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount at 1 January	**112,721**	68,841
Additions	**21,544**	41,439
Recognised during the year	**(2,506)**	(1,934)
Disposal	**(4,667)**	–
Exchange realignment	**1,123**	4,375
Carrying amount at 31 December	**128,215**	112,721
Current portion included in prepayments, deposits and other receivables *(note 25)*	**(2,810)**	(2,499)
Non-current portion	**125,405**	110,222

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

17. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2012				
Cost:				
At 1 January 2012	**187,975**	**99,035**	**–**	**287,010**
Additions	**70,685**	**38,747**	**10,664**	**120,096**
Exchange realignment	**2,297**	**1,230**	**126**	**3,653**
At 31 December 2012	**260,957**	**139,012**	**10,790**	**410,759**
Accumulated amortisation:				
At 1 January 2012	**94,774**	**79,745**	**–**	**174,519**
Provided during the year	**44,793**	**28,441**	**–**	**73,234**
Exchange realignment	**1,202**	**946**	**–**	**2,148**
At 31 December 2012	**140,769**	**109,132**	**–**	**249,901**
Net carrying amount:				
At 31 December 2012	**120,188**	**29,880**	**10,790**	**160,858**
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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**44,991**	44,991
Capital contribution in respect of employee share-based compensation#	**88,529**	69,982
	133,520	114,973

\# 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.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$252,336,000 (2011: HK$229,709,000) and HK$7,246,000 (2011: Nil), respectively, are unsecured, non-interest-bearing and are repayable on demand or within one year.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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 Telecommunication 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 Telecommunication Tech 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$2,300,000	–	100	Sale of mobile phones
Shenzhen Coolpad Technologies Co., Ltd. ("Coolpad Technologies")**	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group 2012 HK$'000	Group 2011 HK$'000
Share of net assets	**6,533**	–

At 31 December 2012, particulars of the jointly-controlled entity are as follows:

Name	Place of registration and operation	Fully paid-up capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Taiwan Coolpad Technology Limited*	Taiwan	New Taiwan dollar 100,000,000	50	50	50	Sale of telecommunications products

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

The above investment in a jointly-controlled entity is indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	Group 2012 HK$'000	Group 2011 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**6,672**	–
Non-current assets	**803**	–
Current liabilities	**(940)**	–
Non-current liabilities	**(2)**	–
Net assets	**6,533**	–
Share of the jointly-controlled entity's results:		
Revenue	**11,943**	–
Other income	**44**	–
	11,987	–
Total expenses	**(18,671)**	–
Tax	**–**	–
Loss for the year	**(6,684)**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2012

20. INVESTMENTS IN ASSOCIATES

	Group 2012 HK$'000	Group 2011 HK$'000
Share of net assets	**52,787**	34,523

The Group's trade payable balance with an associate is disclosed in note 40(a) to the financial statements.

At 31 December 2012, 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.*	PRC/ Mainland China	RMB1,250,000	20	Research, development and sale of telecommunications products
Shenzhen Penghe Property Investment Co., Ltd.*	PRC/ Mainland China	RMB120,000,000	35	Property development

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

The Group's shareholdings in the associates are held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2012 HK$'000	2011 HK$'000
Assets	**171,401**	101,101
Liabilities	**19,234**	2,046
Revenues	**49,011**	–
Profit/(loss)	**2,488**	(612)

NOTES TO FINANCIAL STATEMENTS

31 December 2012

21. AVAILABLE-FOR-SALE INVESTMENT

	2012	2011
	HK$'000	HK$'000
Unlisted equity investment, at cost	**24,426**	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.

At 31 December 2012, the above unlisted equity investment with a carrying amount of HK$24,426,000 (2011: HK$11,102,000) was stated at cost less impairment because the variability in 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.

22. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**728,661**	987,201
Work in progress	**246,657**	212,362
Finished goods	**835,915**	468,982
	1,811,233	1,668,545

23. TRADE RECEIVABLES

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**2,187,026**	1,573,411	**4,070**	3,925
Impairment	**(3,866)**	(1,662)	**–**	–
	2,183,160	1,571,749	**4,070**	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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

23. TRADE RECEIVABLES (CONTINUED)

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**2,155,200**	1,526,898	**1,619**	1,499
4 to 6 months	**6,143**	21,322	**–**	700
7 to 12 months	**1,866**	23,529	**2,451**	1,726
Over 1 year	**23,817**	1,662	**–**	–
	2,187,026	1,573,411	**4,070**	3,925
Less: Impairment	**(3,866)**	(1,662)	**–**	–
	2,183,160	1,571,749	**4,070**	3,925

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**1,662**	2,056
Impairment losses recognised *(note 6)*	**3,762**	922
Amount written off as uncollectible	**(1,580)**	(1,405)
Exchange realignment	**22**	89
	3,866	1,662

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$3,866,000 (2011: HK$1,662,000) with a carrying amount before provision of HK$5,266,000 (2011: HK$1,662,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

23. TRADE RECEIVABLES (CONTINUED)

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**2,155,200**	1,526,898	**1,619**	1,499
Less than 3 months past due	**6,143**	21,322	**–**	700
More than 3 months past due	**21,817**	23,529	**2,451**	1,726
	2,183,160	1,571,749	**4,070**	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.

24. BILLS RECEIVABLE

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills receivable	**233,055**	282,131	**–**	–
Bills receivable discounted with recourse	**–**	403,145	**–**	403,145
	233,055	685,276	**–**	403,145

NOTES TO FINANCIAL STATEMENTS

31 December 2012

24. BILLS RECEIVABLE (CONTINUED)

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**233,055**	282,131	**–**	–
4 to 12 months	**–**	403,145	**–**	403,145
	233,055	685,276	**–**	403,145

Bills receivable are non-interest-bearing.

At 31 December 2012 and 2011, the Group did not have any past due or impaired bills receivable.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**183,176**	232,522	**4,293**	12,234
Deposits and other receivables	**469,715**	76,373	**144**	46
Prepaid expenses	**5,331**	11,432	**–**	–
Current portion of prepaid land lease payments *(note 16)*	**2,810**	2,499	**–**	–
Deposits for the purchase of property, plant and equipment	**11,168**	–	**–**	–
	672,200	322,826	**4,437**	12,280
Non-current portion	**(23,755)**	(8,374)	**–**	–
	648,445	314,452	**4,437**	12,280

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

26. DUE FROM DIRECTORS

Particulars of the amounts due from directors are as follows:

	Group	
Name	**2012 HK$'000**	2011 HK$'000
Mr. Guo Deying	**–**	317
Mr. Jiang Chao	**–**	8
Mr. Li Bin	**–**	330
	–	655

The amounts due from directors mainly represented advances to directors for business trips. The amounts due from directors were unsecured, non-interest-bearing and had no fixed terms of repayment.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Cash and bank balances	**1,273,540**	1,058,857	**154,174**	127,922
Time deposits	**709,595**	1,080,007	**124,394**	283,705
	1,983,135	2,138,864	**278,568**	411,627
Less: Pledged deposits:				
Pledged for bills payable *(note 29)*	**(575,819)**	(689,390)	**–**	–
Pledged for short-term loans *(note 32 (a) (ii))*	**(133,776)**	(325,211)	**(124,394)**	(283,705)
Pledged for issuance of letters of credit	**–**	(65,406)	**–**	–
	(709,595)	(1,080,007)	**(124,394)**	(283,705)
Cash and cash equivalents	**1,273,540**	1,058,857	**154,174**	127,922

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$1,087,881,000 (2011: HK$996,233,000). 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

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.

28. 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	
	2012	2011
	HK$'000	HK$'000
Within 3 months	**1,680,626**	1,361,305
4 to 6 months	**56,220**	13,212
7 to 12 months	**5,233**	1,799
Over 1 year	**204**	1,153
	1,742,283	1,377,469

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

29. 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	
	2012	2011
	HK$'000	HK$'000
Within 3 months	**2,080,461**	1,212,513
4 to 12 months	**–**	403,145
	2,080,461	1,615,658

At 31 December 2012, the Group's bills payable were secured by time deposits of HK$575,819,000 (2011: HK$689,390,000) (note 27).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2012	2011	**2012**	2011
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accrued royalties		**328,978**	221,627	**–**	–
Advances from customers		**310,246**	285,082	**2,604**	3,103
Product warranty provision	*(a)*	**59,573**	41,118	**–**	–
Accrued sales incentives		**244,332**	194,491	**–**	–
Other accruals		**15,793**	8,024	**2,830**	3,103
Other payables		**211,279**	231,377	**2,890**	7,444
		1,170,201	981,719	**8,324**	13,650

Other payables are non-interest-bearing and have no fixed terms of repayment.

Note:

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

		Group	
		2012	2011
	Note	**HK$'000**	HK$'000
At 1 January		**41,118**	20,477
Additional provision	6	**92,702**	62,495
Amounts utilised during the year		**(74,768)**	(43,335)
Exchange realignment		**521**	1,481
At 31 December		**59,573**	41,118

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.

31. DERIVATIVE FINANCIAL INSTRUMENTS

LIABILITIES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Forward currency contracts	**–**	7,228	**–**	6,341
Interest rate swaps	**–**	1,149	**–**	1,149
	–	8,377	**–**	7,490

NOTES TO FINANCIAL STATEMENTS

31 December 2012

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

LIABILITIES (CONTINUED)

In prior year, the Group 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 were not designated for hedge purpose and were measured at fair value through profit or loss. During the year, the net income on changes in fair values of the forward currency contracts and interest rate swaps which were entered into in prior year and closed during the year, amounting to HK$7,239,000 (2011: HK$2,319,000) in total, has been recognised in the profit or loss (note 5).

32. INTEREST-BEARING BANK BORROWINGS

Group	**2012** Effective interest rate (%)	**2012** Maturity	**2012** HK$'000	2011 Effective interest rate (%)	2011 Maturity	2011 HK$'000
Current						
Bank loans – secured	**1.45-6.10**	**2013**	**216,088**	3.22-6.10	2012	341,070
Bank loans – unsecured	**1.21-6.00**	**2013**	**124,393**	5.96-7.81	2012	249,165
Bank loans – discounted bills with recourse			**–**	1.33-3.30	2012	384,216
Bank loans – import and trust receipt loans	**1.21**	**2013**	**195,469**	3.12-4.82	2012	215,643
			535,950			1,190,094
Non-current						
Bank loans – secured	**6.10**	**2014**	**23,635**	6.10	2013-2014	67,843
			559,585			1,257,937
Analysed into bank loans repayable:						
Within one year or on demand			**535,950**			1,190,094
In the second year			**23,635**			44,406
In the third to fifth years, inclusive			**–**			23,437
			559,585			1,257,937

NOTES TO FINANCIAL STATEMENTS

31 December 2012

32. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

	2012			2011		
Company	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – discounted bills with recourse			**–**	1.33-3.30	2012	384,216

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 2012 of approximately HK$106,794,000 (2011: HK$104,396,000); and

(ii) the pledge of the Group's time deposits which had a carrying value at 31 December 2012 of approximately HK$133,776,000 (2011: HK$325,211,000).

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

	2012 HK$'000	2011 HK$'000
Personal guarantees from related parties:		
– Mr. GUO Deying	**68,416**	33,305
– Ms. YANG Xiao*	**68,416**	33,305

* 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$46,912,000 (2011: HK$78,405,000) and HK$512,673,000 (2011: 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$317,204,000 (2011: HK$619,218,000) and HK$242,381,000 (2011: HK$638,719,000) were denominated in RMB and USD, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

33. 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 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 and 1 January 2012	**52,629**	**8,209**	**60,838**
Credited to equity during the year	**(1,542)**	**–**	**(1,542)**
Charged to the profit or loss for the year	**2,402**	**–**	**2,402**
Exchange differences	**456**	**–**	**456**
At 31 December 2012	**53,945**	**8,209**	**62,154**

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 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 and 1 January 2012	**7,984**	**4,919**	**–**	**12,903**
Charged to the profit or loss for the year	**(7,958)**	**(1,001)**	**–**	**(8,959)**
Exchange differences	**(26)**	**28**	**–**	**2**
At 31 December 2012	**–**	**3,946**	**–**	**3,946**

NOTES TO FINANCIAL STATEMENTS

31 December 2012

33. 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 2012, the Group has not recognised deferred tax liabilities of HK$193,966,000 (2011: HK$116,301,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$1,939,660,000 (2011: HK$1,163,010,000), 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$183,035,000 (2011: HK$320,802,000) 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 sufficient 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.

34. SHARE CAPITAL

	2012 **HK$'000**	2011 HK$'000
Authorised:		
20,000,000,000 (2011: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,094,443,000 (2011: 2,147,405,000) ordinary shares of HK$0.01 each	**20,944**	21,474

NOTES TO FINANCIAL STATEMENTS

31 December 2012

34. 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 37)*	**Total** HK$'000
At 1 January 2011		2,102,360,000	21,024	74,789	95,813
Share options exercised		10,257,000	102	8,473	8,575
Placing and issue shares		150,000,000	1,500	667,611	669,111
		160,257,000	1,602	676,084	677,686
Repurchase of shares		(115,212,000)	(1,152)	(189,112)	(190,264)
Proposed final 2011 dividend		–	–	(43,005)	(43,005)
At 31 December 2011 and 1 January 2012		**2,147,405,000**	**21,474**	**518,756**	**540,230**
Share options exercised	*(a) to (d)*	**18,830,000**	**188**	**27,027**	**27,215**
Repurchase of shares	*(e)*	**(71,792,000)**	**(718)**	**(96,432)**	**(97,150)**
Proposed final 2012 dividend		**–**	**–**	**(62,836)**	**(62,836)**
At 31 December 2012		**2,094,443,000**	**20,944**	**386,515**	**407,459**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

34. SHARE CAPITAL (CONTINUED)

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

(a) The subscription rights attaching to 5,916,000 share options (note 35) were exercised at the subscription price of HK$1.415 per share, resulting in the issue of 5,916,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$8,371,000.

(b) The subscription rights attaching to 8,462,000 share options (note 35) were exercised at the subscription price of HK$0.674 per share, resulting in the issue of 8,462,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$5,703,000.

(c) The subscription rights attaching to 2,564,000 share options (note 35) were exercised at the subscription price of HK$0.397 per share, resulting in the issue of 2,564,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$1,018,000.

(d) The subscription rights attaching to 1,888,000 share options (note 35) were exercised at the subscription price of HK$1.678 per share, resulting in the issue of 1,888,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$3,168,000.

(e) During the year, the Company repurchased a total of 71,792,000 of its own ordinary shares on the Stock Exchange at a net aggregate consideration of approximately HK$97,150,000. 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.

35. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

35. SHARE OPTION SCHEME (CONTINUED)

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.

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

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**2.0165**	**169,899**	1.9553	140,612
Granted during the year	**2.328**	**48,496**	1.678	52,524
Exercised during the year	**0.9698**	**(18,830)**	0.5846	(10,257)
Forfeited during the year	**2.3104**	**(32,288)**	1.1418	(12,480)
Expired during the year	**1.2366**	**(4,663)**	0.46	(500)
At 31 December	**2.1946**	**162,614**	2.0165	169,899

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.734 per share (2011: HK$3.154 per share).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

35. SHARE OPTION SCHEME (CONTINUED)

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

2012

Number of options '000	Exercise price* HK$ per share	Exercise period
2,016	1.415	18-09-10 to 17-09-14
1,732	0.674	20-05-09 to 19-05-13
5,144	0.674	20-05-10 to 19-05-14
6,854	0.674	20-05-11 to 19-05-15
3,392	0.674	20-05-14 to 19-05-18
2,732	0.397	27-02-10 to 26-02-14
4,000	0.397	27-02-13 to 26-02-17
11,152	3.24	28-06-11 to 27-06-15
12,704	3.24	28-06-12 to 27-06-16
13,112	3.24	28-06-13 to 27-06-17
13,500	3.24	28-06-14 to 27-06-18
37,492	1.678	12-07-12 to 11-07-16
288	1.678	12-07-14 to 11-07-18
43,520	2.328	27-12-13 to 27-12-17
4,976	2.328	27-12-15 to 27-12-19
162,614		

NOTES TO FINANCIAL STATEMENTS

31 December 2012

35. SHARE OPTION SCHEME (CONTINUED)

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
2,337	0.397	27-02-10 to 26-02-12
4,112	0.397	27-02-10 to 26-02-14
4,000	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		

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

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$58,041,000 (2011: 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:

	2012	2011
Dividend yield (%)	**1.1**	1.8-2
Expected volatility (%)	**74-75**	73-77
Historical volatility (%)	**74-75**	73-77
Risk-free interest rate (%)	**0.34-0.47**	1.24-1.75
Weighted average share price (HK$ per share)	**2.28**	1.67

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

35. SHARE OPTION SCHEME (CONTINUED)

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

The Group recognised a share option expense of HK$19,847,000 (2011: HK$34,611,000) during the year ended 31 December 2012 (note 6).

The 18,830,000 share options exercised during the year resulted in the issue of 18,830,000 ordinary shares of the Company and new share capital of HK$188,000 and share premium of HK$27,027,000 (before issue expenses), as further detailed in note 34 to the financial statements.

At the end of the reporting period, the Company had 162,614,000 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 162,614,000 additional ordinary shares of the Company and additional share capital of HK$1,626,000 and share premium of HK$355,249,000 (before issue expenses).

Subsequent to the end of the reporting period, a total of 1,278,000 share options were exercised, resulting in the issue of 1,278,000 ordinary shares of the Company, with 1,668,000 share options forfeited.

At the date of approval of these financial statements, the Company had 159,668,000 share options outstanding under the Scheme, which represented approximately 7.62% of the Company's shares in issue as at that date.

36. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

36. SHARE AWARD PLAN (CONTINUED)

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 has/have been attained and notified to the Trustee by the directors in writing; and (c) where applicable, the date on which the Trustee has completed the purchase of shares for the purpose of making the relevant award.

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

During the year, the Trustee awarded 400,000 shares (2011: Nil) of the Company to an employee at nil consideration under the Share Award Plan.

The fair value of the awarded shares granted during the year was estimated at HK$564,000 based on the market price of the Company's shares at the grant date which the Group recognised as a share award plan expense (2011: Nil) during the year ended 31 December 2012 (note 6).

At the end of the reporting period and at the date of approval of these financial statements, 1,204,000 shares held for the Share Award Plan have yet to be awarded.

37. 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 48 to 49 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

37. RESERVES (CONTINUED)

(b) COMPANY

	Notes	Share premium account HK$'000 (Note (i))	Contributed surplus HK$'000 (Notes (i) and (ii))	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 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	34	676,084	–	(2,579)	–	–	–	–	673,505
Repurchase of shares	34	(189,112)	–	–	–	1,152	–	(1,152)	(189,112)
Equity-settled share option arrangements		–	–	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 and 1 January 2012		**518,756**	**44,992**	**65,484**	**41,304**	**1,152**	**388**	**34,222**	**706,298**
Total comprehensive loss for the year	11	**–**	**–**	**–**	**–**	**–**	**–**	**(11,548)**	**(11,548)**
Issue of shares	34	**27,027**	**–**	**(8,955)**	**–**	**–**	**–**	**–**	**18,072**
Repurchase of shares	34	**(96,432)**	**–**	**–**	**–**	**718**	**–**	**(718)**	**(96,432)**
Equity-settled share option arrangements		**–**	**–**	**19,847**	**–**	**–**	**–**	**–**	**19,847**
Shares awarded under the Share Award Plan	36	**–**	**–**	**–**	**483**	**–**	**–**	**–**	**483**
Transfer of share option reserve upon the forfeiture or expiry of share options		**–**	**–**	**(7,206)**	**–**	**–**	**–**	**7,206**	**–**
Difference between the proposed final 2011 dividend and the actual dividend paid		**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**
Proposed final 2012 dividend	12	**(62,836)**	**–**	**–**	**–**	**–**	**–**	**–**	**(62,836)**
At 31 December 2012		**386,515**	**44,992**	**69,170**	**41,787**	**1,870**	**388**	**29,159**	**573,881**

Notes:

(i) 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.

(ii) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

38. 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 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**15,575**	28,014
In the second to fifth years, inclusive	**3,296**	9,884
	18,871	37,898

(b) AS LESSEE

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**21,912**	8,724
In the second to fifth years, inclusive	**33,163**	3,437
	55,075	12,161

NOTES TO FINANCIAL STATEMENTS

31 December 2012

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**49,456**	6,494

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

40. RELATED PARTY TRANSACTIONS

(a) BALANCE WITH A RELATED PARTY:

	Group	
	2012	2011
	HK$'000	HK$'000
Due to an associate	**7,518**	–

The amount due to an associate of HK$7,518,000 as at 31 December 2012 is unsecured, non-interest-bearing and has no fixed terms of repayment.

(b) TRANSACTION WITH A RELATED PARTY:

	Group	
	2012	2011
	HK$'000	HK$'000
An associate:		
Purchase of raw materials	**27,645**	11,691

Purchase of raw materials from the associate was made based on mutually agreed terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) 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	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,547**	2,009
Pension scheme contributions	**64**	54
Equity-settled share option expense	**315**	350
Total compensation paid to other key management personnel	**1,926**	2,413

Remuneration to each of the other key management personnel of the Group was less than HK$1,000,000 for each of the two years ended 31 December 2011 and 2012.

(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 32(a) to the financial statements.

The related party transactions above do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

FINANCIAL ASSETS

	Group					
	2012			2011		
	Loans and receivables HK$'000	**Available-for-sale financial asset HK$'000**	**Total HK$'000**	Loans and receivables HK$'000	Available-for-sale financial asset HK$'000	Total HK$'000
Available-for-sale investment	**–**	**24,426**	**24,426**	–	11,102	11,102
Trade receivables	**2,183,160**	**–**	**2,183,160**	1,571,749	–	1,571,749
Bills receivable	**233,055**	**–**	**233,055**	685,276	–	685,276
Financial assets included in prepayments, deposits and other receivables	**208,796**	**–**	**208,796**	76,373	–	76,373
Due from directors	**–**	**–**	**–**	655	–	655
Pledged deposits	**709,595**	**–**	**709,595**	1,080,007	–	1,080,007
Cash and cash equivalents	**1,273,540**	**–**	**1,273,540**	1,058,857	–	1,058,857
	4,608,146	**24,426**	**4,632,572**	4,472,917	11,102	4,484,019

NOTES TO FINANCIAL STATEMENTS

31 December 2012

41. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES

	Group			
	2012	2011		
	Financial liabilities at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	**1,742,283**	–	1,377,469	1,377,469
Bills payable	**2,080,461**	–	1,615,658	1,615,658
Financial liabilities included in other payables and accruals	**718,056**	–	549,338	549,338
Derivative financial instruments	**–**	8,377	–	8,377
Interest-bearing bank borrowings	**559,585**	–	1,257,937	1,257,937
Due to an associate	**7,518**	–	–	–
	5,107,903	8,377	4,800,402	4,808,779

FINANCIAL ASSETS – LOANS AND RECEIVABLES

	Company	
	2012	2011
	HK$'000	HK$'000
Due from subsidiaries	**252,336**	229,709
Trade receivables	**4,070**	3,925
Bills receivable	**–**	403,145
Financial assets included in prepayment deposits and other receivables	**144**	46
Pledged deposits	**124,394**	283,705
Cash and cash equivalents	**154,174**	127,922
	535,118	1,048,452

NOTES TO FINANCIAL STATEMENTS

31 December 2012

41. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES

	Company			
	2012	2011		
	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Due to subsidiaries	**7,246**	–	–	–
Financial liabilities included in other payables and accruals	**5,720**	–	10,547	10,547
Derivative financial instruments	**–**	7,490	–	7,490
Interest-bearing bank borrowings	**–**	–	384,216	384,216
	12,966	7,490	394,763	402,253

42. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's financial instruments recorded at amortised cost in the financial statements approximated to their fair values as at the end of the reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

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

- The fair values of an unlisted available-for-sale equity investment have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates.

- The fair values of the 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 entered into derivative financial instruments with various counterparties, principally financial institutions. Derivative financial instruments, including forward currency contracts and interest rate swaps, were 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 were the same as their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

42. 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)

Neither the Group nor the Company had any financial assets or financial liabilities measured at fair value as at 31 December 2012.

At 31 December 2011, the financial liabilities of the Group and of the Company measured at fair value were derivative financial instruments, which are measured at level 2. Neither the Group nor the Company had any financial assets measured at fair value as at 31 December 2011.

43. 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.

In prior year, the Group also entered into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose was 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 2012

43. 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 32 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
2012				
RMB	**100**	**(3,172)**	**100**	**–**
USD	**100**	**(2,424)**	**100**	**–**
RMB	**(100)**	**3,172**	**(100)**	**–**
USD	**(100)**	**2,424**	**(100)**	**–**
2011				
RMB	100	(6,192)	100	–
USD	100	(5,603)	100	(4,075)
RMB	(100)	6,192	(100)	–
USD	(100)	5,603	(100)	4,075

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 2012

43. 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
2012		
If RMB weakens against USD	**5**	**(6,954)**
If RMB strengthens against USD	**(5)**	**6,954**
2011		
If RMB weakens against USD	5	(47,680)
If RMB strengthens against USD	(5)	47,680

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, amounts due from directors and an 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 92% (2011: 96%) of the Group's trade receivables were due from the Group's five largest customers.

The credit risks for pledged 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 23 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

43. 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

	2012			
	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	**1,742,283**	**–**	**–**	**1,742,283**
Bills payable	**2,080,461**	**–**	**–**	**2,080,461**
Financial liabilities included in other payables and accruals	**718,056**	**–**	**–**	**718,056**
Interest-bearing bank borrowings	**552,385**	**23,875**	**–**	**576,260**
Due to an associate	**7,518**	**–**	**–**	**7,518**
	5,100,703	**23,875**	**–**	**5,124,578**

	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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

43. 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

	2012 On demand and less than 12 months HK$'000	2011 On demand and less than 12 months HK$'000
Due to subsidiaries	**7,246**	–
Financial liabilities included in other payables and accruals	**5,720**	10,547
Derivative financial instruments	**–**	305,033
Interest-bearing bank borrowings	**–**	386,247
	12,966	701,827

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 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CAPITAL MANAGEMENT (CONTINUED)

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

Group

	2012 **HK$'000**	2011 HK$'000
Interest-bearing bank borrowings	**559,585**	1,257,937
Trade payables	**1,742,283**	1,377,469
Bills payable	**2,080,461**	1,615,658
Other payables and accruals	**1,170,201**	981,719
Due to an associate	**7,518**	–
Less: Cash and cash equivalents	**(1,273,540)**	(1,058,857)
Net debt	**4,286,508**	4,173,926
Equity attributable to owners of the Company	**2,409,740**	2,185,165
Capital and net debt	**6,696,248**	6,359,091
Gearing ratio	**64%**	66%

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2013.