Coolpad 酷派

COOLPAD GROUP LIMITED
酷派集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(stock code : 2369)

2013 ANNUAL REPORT

CORPORATE PROFILE

Coolpad Group Limited (the "Company"), formerly known as China Wireless Technologies Limited, 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 TD-LTE, FDD-LTE, TD-SCDMA, CDMA-EVDO, WCDMA, GSM, and CDMA1X 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 4G and 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.

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CORPORATE INFORMATION

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Coolpad Information Harbor
NO.2 Mengxi Road
Hi-Tech Industry Park (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 (resigned on 17 February 2014)

NOMINATION COMMITTEE

Mr. GUO Deying *(Chairperson)*
Mr. YANG Xianzu (resigned on 17 February 2014)
Mr. XIE Weixin
Mr. CHAN King Chung (appointed on 17 February 2014)

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

Bank of Communications Co., Ltd.
DBS Bank (Hong Kong) Ltd.
Hong Kong and Shanghai Banking (Hong Kong) Co., Ltd.

COMPANY WEBSITES

www.coolpad.com.hk

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)				
	2013	2012	2011	2010	2009
Operating revenue	**19,623,652**	14,390,166	7,340,495	4,592,699	2,604,865
Profit before tax	**437,373**	418,160	324,297	545,101	263,579
Tax	**(89,121)**	(93,857)	(53,228)	(64,836)	(23,574)
Profit for the year	**348,252**#	324,303	271,069	480,265	240,005

FINANCIAL POSITION

	As at 31 December (HK$'000)				
	2013	2012	2011	2010	2009
Non-current assets	**1,251,002**	1,244,373	1,151,664	951,550	831,430
Current assets	**8,810,732**	6,859,028	6,379,541	3,301,409	1,418,416
Non-current liabilities	**57,904**	98,645	143,212	180,318	245,096
Current liabilities	**7,242,936**	5,591,769	5,198,303	2,652,149	1,125,624
Net assets	**2,760,894**	2,412,987	2,189,690	1,420,492	879,126

After taking into account a one-off expense of HK$136.0 million, net of tax, arising from the first phase of the reconstruction plan of the Group for the year ended 31 December 2013. Details of the reconstruction plan have been set out in the Company's announcement dated 28 November 2013.

CHAIRMAN'S STATEMENT

Guo Deying
Chairman, Executive Director and CEO

Dear fellow shareholders:

It is my great honor to present the annual results of the Group for the year ended 31 December 2013 to our investors. Even though the global economy continued to grow at a modest pace, we have achieved a record-breaking performance during the year under review. The historical result reflects not only the popularization of Coolpad smartphones, but also dedication by our employees and strong brand recognition from our customers and consumers. To better reflect the significance of Coolpad brand to the Group's operations, we changed the name of the Company from "China Wireless Technologies Limited" to "Coolpad Group Limited".

FINANCIAL PERFORMANCE

For the year ended 31 December 2013, the Group had a turnover of approximately HK$19,623.7 million, which increased 36.4% from HK$14,390.2 million in 2012. The increase was mostly due to the Group's focus on the mid- and low-end smartphone market and was largely ascribed to the solid 3G business increase in China. The Group's gross profit margin for 2013 was 12.9%, which was 12.2% in 2012, up 0.7 percent points. The increase of gross profit margin was mainly because of the economies of scale and the better cost control in 2013. The net profit of 2013 was approximately HK$348.3 million, which increased 7.4% from HK$324.3 million in 2012. Without taking into account a one-off expense of HK$136.0 million, net of tax, arising from the Group's reconstruction plan, details of which have been set out in the Company's announcement dated 28 November 2013, the Group would have recorded a net profit of HK$484.3 million. Basic and diluted earnings per share of the Company reached HK16.6 cents and HK16.2 cents for the year ended 31 December 2013, respectively.

DIVIDEND DISTRIBUTION

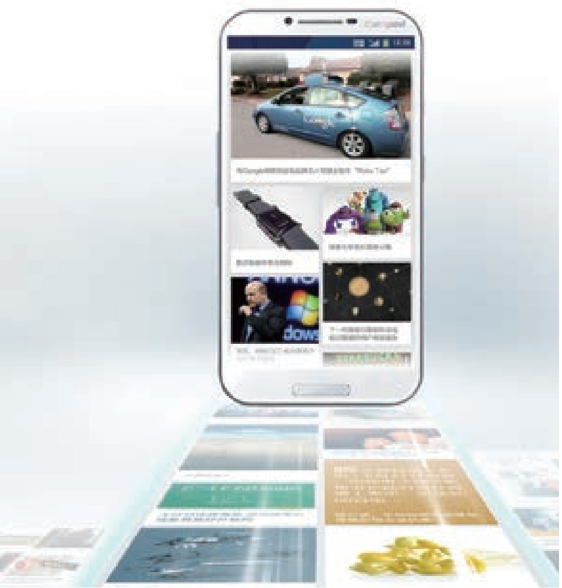
The Directors do not recommend the payment of any final dividend for the year ended 31 December 2013.

CHAIRMAN'S STATEMENT

PRODUCT DEVELOPMENT

Although facing the increased competition and declining average selling price, we still recorded good results of selling Coolpad smartphones in 2013. According to the report from Sino Market Research, the market share of Coolpad smartphones in the whole 3G smartphone market of China ranked No.3 by unit shipments in the year of 2013, which strengthened our leadership as one of the top smartphone vendors in China.

In the year of 2013, we continued to focus on launching a full range of Coolpad smartphones from high-end to mid- and low-end ones, offering the users a better build quality and better radio performance. Plenty of star products series were created, and the shipments number of some new models exceeded more than one million units. These new models significantly contributed to the strong revenue and market share growth for the year of 2013. Coolpad brand has been widely recognized as one of the Chinese top smartphone brands by our consumers and business partners primarily due to the strong and enriched product mix. We also launched 4G FDD-LTE models in the US and Europe customized for the local telecommunications carriers, as well as TD-LTE new models in China during 2013.



In the mobile internet age, we focused on the cloud strategy and put a lot of R&D resources on constructing the cloud solution. In terms of cloud applications and cloud services, we launched the self-owned Coolcloud, integrating the innovative technologies (cloud sharing, cloud synchronization, cloud security, and cloud health etc.) into Coolpad smartphones. These features provided better experience for Coolpad users. More and more Coolpad users began to enroll this platform.

Meanwhile, we also launched our first waterproof smart watch (cWatch C1), being the accessories for Coolpad smartphone. Except for the common functions, C1 had the features like telephone, SMS, calendar reminders, sports and health management, and other notifications. In addition to launch the smart watches, we also introduced other wearable devices which were based on the personal health management, CoolHub. The CoolHub functioned as a Bluetooth speaker and a micro SD card reader. CoolHub 2 was the upgrade version. It has the more advanced functions, such as blood oxygen, alcohol, air quality detection based on these features, and also with the functions of movement step gauge and pressure gauge. These accessories could help the users improve the personal health management.

CHAIRMAN'S STATEMENT

CONSISTENT DEVELOPMENT

To expand the sales channel, we exported 4G smartphone through partnerships with international carriers to Europe and the USA. After launching the first 4G FDD-LTE smartphone in USA in 2012, we continued to roll out the next flagship 4G model this year. We also entered into the Europe market finally in 2013, after a long term of preparation and basic works. Coolpad became more well-known overseas with affordable smartphones and decent specifications. We put Coolpad shopping mall online (http://shop.coolpad.cn/) successfully, and paved the way for a new chapter of development in sales through e-commerce channel in the first half of 2013. We also built more self-owned sales channel sites this year to expand the market, including specialty stores and experience stores.

We started the reconstruction plan in the Coolpad Information Harbor to satisfy the demands of the consistent development in 2013. It was implemented in accordance with urban planning plan drawn up by the Shenzhen government after our communication with the Shenzhen government. It involved abolition of certain existing properties owned by Yulong Shenzhen and construction of taller properties with higher gross floor areas in the Coolpad Information Harbor. We also set up two R&D centers in Nan Jing and He Fei respectively in 2013.

SOCIAL RESPONSIBILITY

On the way of promoting business growth, we always capitalized our fund to support the students who were in need of help in the school. We opened up a new mode of university and enterprise partnership. As a responsible enterprise, we always upheld the legacy of "When disasters happening on one side, search and rescue from all sides". We always stood behind those who were in need of help. We assumed dutiful responsibility for the society to work out troubles and issues facing relevant people and communities to benefit our society.

OUTLOOK FOR 2014

As TD-LTE 4G licenses had been issued to the major three telecommunications carriers in China in the year of 2013, we officially released the development strategy "Coolpad LTE for all" in 2014. Thanks to the accumulated R&D construction of the 4G technology, we could be able to launch the 4G smartphones faster. Meanwhile, we will transfer more than half of the R&D resources to the 4G products in 2014, to quickly ride on the next wave of mobile technology. More and more 4G new models will be launched and the prices of these new models could be affordable for the users in 2014.

CHAIRMAN'S STATEMENT

We will continue to forge ahead in the mobile internet age, depending on the CoolCloud platform in 2014. With arrival of big data, smart cloud, and mobile internet, more people will use smartphones to access the Internet, translating to significant market opportunities. Especially, because of its fast internet access speed, stability and flexibility, LTE networks will bring the users better experience, and promote the users to increase the time spent on mobile. We will strengthen partnerships with Internet players on the cloud strategy to share the opportunities, bring the users better experience surfing on the mobile internet, and construct the CoolCloud eco-system that is conducive to mutual development.

We will continue to focus on expanding global market opportunities, cooperate with industry leaders and major telecommunications carriers to give users even better products and services, and further enhance global operations management to segue Coolpad's rise as the world's number one smartphone brand. More overseas R&D centers will be set up to satisfy the localized features of the Coolpad smartphone. We will also expand our customer base by leveraging the online mall in 2014.

Apart from securing adequate capacity and ensuring on-time delivery of components from our suppliers, we will also regularly negotiate to reduce supply costs. Having the advantage of the overall competitiveness built on the clear strategy, the innovative mechanisms, the culture of pursuing excellence and high quality of operations management, we believe we could improve the brand appeal on the quality of operating. 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 in the future.

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.

Coolpad Group Limited
Guo Deying
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 20 March 2014

創新今天，**成就未來**

TODAY'S INNOVATION

SUCCESS IN THE FUTURE

Total Revenue HK$19,623.7 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		
	2013	2012	Variance (%)
Revenue			
4G Coolpad Smartphone	**513.8**	1,230.2	(58.2)
3G Coolpad Smartphone	**18,934.8**	13,097.7	44.6
Wireless application service income	**106.2**	31.4	238.2
Other Products	**68.9**	30.9	123.0
Total revenue	**19,623.7**	14,390.2	36.4
Cost of sales	**(17,093.7)**	(12,639.1)	35.2
Gross profit	**2,530.0**	1,751.1	44.5
Other income and gains	**382.4**	289.6	32.0
Selling and distribution expenses	**(1,301.7)**	(869.7)	49.7
Administrative expenses	**(984.3)**	(673.7)	46.1
Other expenses	**(165.5)**	(17.8)	829.8
Finance costs	**(23.1)**	(55.2)	(58.2)
Share of profits and losses of:			
A jointly-controlled entity	**(0.5)**	(6.7)	(92.5)
Associates	**0.1**	0.6	(83.3)
Profit before tax	**437.4**	418.2	4.6
Income tax expense	**(89.1)**	(93.9)	(5.1)
Profit for the year	**348.3**	324.3	7.4

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYZED BY PRODUCT SEGMENTS

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

	Year ended 31 December			
	2013		2012	
Revenue	**Revenue HK$ million**	**% of revenue**	Revenue HK$ million	% of revenue
4G Coolpad smartphone	**513.8**	**2.6**	1,230.2	8.6
3G Coolpad smartphone	**18,934.8**	**96.5**	13,097.7	91.0
Wireless application service income	**106.2**	**0.5**	31.4	0.2
Others	**68.9**	**0.4**	30.9	0.2
Total	**19,623.7**	**100**	14,390.2	100

The Group recorded consolidated revenue for the year ended 31 December 2013 of HK$19,623.7 million, representing a growth of 36.4% as compared with HK$14,390.2 million for the year ended 31 December 2012. The substantial growth of the consolidated revenue in 2013 was mainly driven by the strong increase in the sales of the Group's 3G Coolpad smartphone as a result of the continued vibrant development of 3G mobile phone market in Mainland China during the year under review.

Revenue from the sales of 3G Coolpad smartphone increased by 44.6% to HK$18,934.8 million for the year ended 31 December 2013 as compared with HK$13,097.7 million for year ended 31 December 2012. 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 demands of the 3G smartphone during the year. The sales of 3G Coolpad smartphone became the Group's main revenue stream.

Apart from 3G smartphones, the Group also launched 4G smartphones in 2013 in China. The Group's products can support all the global mainstream 3G/4G networks, including TD-LTE, FDD-LTE, TD-SCDMA, CDMA-EVDO, and WCDMA network. Percentage of revenue generated from the sales of 4G smartphones decreased from 8.6% in 2012 to 2.6% in 2013. The decline was mainly due to the corporate restructuring of a major customer in the USA. The Group also started to sell 4G smartphones in China as the Ministry of Industry and Information Technology of the People's Republic of China issued the 4G licences to the three local telecommunication carriers on 4 December 2013.

MANAGEMENT DISCUSSION & ANALYSIS

Wireless application service income was HK$106.2 million in 2013, representing a growth of 238.2% as compared with HK$31.4 million in 2012. The increase was attributable to the increase of the sales volume of Coolpad smartphones and increased cooperation with third party wireless application producers. Revenue from the sale of other products increased by HK$38.0 million, or 123.0%, to HK$68.9 million for the year ended 31 December 2013 as compared with HK$30.9 million for the year ended 31 December 2012. The increase in the revenue from the sale of other products during the year was mainly attributable to an increase in the sales of Coolpad smartphones' accessories.

GROSS PROFIT

	Year ended 31 December	
	2013	2012
Gross profit (HK$ million)	**2,530.0**	1,751.1
Gross profit margin (%)	**12.9**	12.2

The Group's overall gross profit for the year ended 31 December 2013 increased to HK$2,530.0 million, representing an increase of 44.5% as compared with HK$1,751.1 million for the year ended 31 December 2012. The Group's overall gross profit margin for the year ended 31 December 2013 increased to 12.9%, up 0.7% as compared with 12.2% for the year ended 31 December 2012. The increase in gross profit margin was primarily attributable to the economies of scale and better cost control.

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to approximately HK$382.4 million for the year ended 31 December 2013, representing an increase of 32.0% as compared with HK$289.6 million for the year ended 31 December 2012. This increase was mainly attributable to the increase of government grant, subsidies received by the Group and foreign exchange gains arising from the appreciation of Renminbi in 2013.

SELLING AND DISTRIBUTION EXPENSES

	Year ended 31 December	
	2013	2012
Selling and distribution expenses (HK$ million)	**1,301.7**	869.7
Selling and distribution expenses/Revenue (%)	**6.6**	6.0

Selling and distribution expenses of the Group for the year ended 31 December 2013 increased to HK$1,301.7 million, representing an increase of approximately HK$432.0 million, or 49.7%, as compared with HK$869.7 million for the year ended 31 December 2012. The net increase of HK$432.0 million was primarily attributable to the increased expenditures for marketing, advertising and promotion activities and increased salaries of the Group's sales and marketing personnels to support the new product launches. As a percentage of total revenue, selling and distribution expenses increased to 6.6% in 2013 from 6.0% in 2012. The net increase of 0.6% as a percentage of total revenue was because of the increased spendings on sales and marketing the new products during the year.

ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2013	2012
Administrative expenses (HK$ million)	**984.3**	673.7
Administrative expenses/Revenue (%)	**5.0**	4.7

Administrative expenses increased by 46.1% to HK$984.3 million for the year ended 31 December 2013 from HK$673.7 million for the year ended 31 December 2012. The net increase of HK$310.6 million was primarily attributable to the increased expenditures on R&D and salaries of administrative, management and R&D personnels. As a percentage of total revenue, they increased by nearly 0.3% during the year under review as compared with 4.7% in the year of 2012, which was because of the continuous business expansion and the increased R&D spendings during the reporting period.

INCOME TAX EXPENSE

For the year ended 31 December 2013, the Group's income tax expense amounted to HK$89.1 million (2012: HK$93.9 million). The decrease in the current year income tax expense was because the Group enjoyed more tax benefits in 2013.

NET PROFIT

For the year ended 31 December 2013, the Group recorded a net profit of HK$348.3 million, representing an increase of HK$24.0 million, or 7.4%, as compared with HK$324.3 million for the year ended 31 December 2012. Without taking into account a one-off expense of HK$136.0 million, net of tax, arising from the Group's Reconstruction Plan, details of which have been set out in the Company's announcement dated 28 November 2013, the Group would have recorded a net profit of HK$484.3 million. The increase in net profit was mainly because of the increase of sales revenue and sales volume in 2013.

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2013, the Group's working capital was mainly generated from cash arising 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 2013 amounted to HK$1,628.3 million (2012: HK$1,273.5 million). Details of bank borrowings of the Group are set out in note 31 to the financial statements.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities.

PLEDGE OF ASSETS

The Group had no secured bank borrowings as at 31 December 2013. As at 31 December 2012, certain of the Group's bank borrowings were secured by the pledge of the Group's time deposits which had a carrying value of approximately HK$133.8 million. As at that date, the Group's bank borrowings were also secured by 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$106.8 million.

BUSINESS REVIEW AND OUTLOOK

Looking back to the year of 2013, even though the global economy continued to grow at a modest pace, the smartphone industry was still in the midst of the tremendous growth. Because of the increasing popularity of 3G network and the increasing number of high performance-to-cost smartphones in China, China became one of the fast growing smartphone market. According to the data from Gartner Group Inc., the total number of smartphones that were sold in China reached 330.8 million units in 2013, accounting for 34.2% of the world's smartphones trading volume, well ahead of the U.S. market at 13.2%, which meant that China became the world's largest smartphone market.

The market growth continued to attract more attentions, resulting in the intensifying competition and more competitors. Meanwhile, the average selling price ("ASP") of the smartphones was lower than ever before. The increased competition and declining products prices brought more challenges to a lot of smartphone makers in 2013. In face of these challenges, smartphone makers have launched new models with better user experience, strong portfolio and reasonable pricing which resulted in the continuous fast increase in the sales volume amid the intensifying competition.

HIGHLIGHTS FOR 2013

Although facing the same challenges like other smartphone producers, the Group still recorded good results of selling Coolpad smartphones in 2013. According to the report from Sino Market Research, the market share of Coolpad smartphones in the whole 3G smartphone market of China ranked No.3 by unit shipments in the year of 2013, which strengthened its leadership as one of the top smartphone producers in China.

For the year ended 31 December 2013, the Group had a turnover of approximately HK$19,623.7 million, which increased 36.4% from HK$14,390.2 million in 2012. The increase was mostly due to the Group's focus on the mid- and low-end smartphone market and was largely ascribed to the solid 3G business increase in China. The Group's gross profit margin for 2013 was 12.9%, which was 12.2% in 2012, up 0.7 percent points. The increase of gross profit margin was mainly because of the economies of scale and the better cost control in 2013. The net profit of 2013 was approximately HK$348.3 million, which increased 7.4% from HK$324.3 million in 2012. Without taking into account a one-off expense of HK$136.0 million, net of tax, arising from the Group's reconstruction plan, details of which have been set out in the Company's announcement dated 28 November 2013, the Group would have recorded a net profit of HK$484.3 million. Basic and diluted earnings per share of the Company reached HK16.6 cents and HK16.2 cents for the year ended 31 December 2013, respectively.

MANAGEMENT DISCUSSION & ANALYSIS

EVENTS

In January 2013, the Group took part at the Consumer Electronics Show (CES) 2013 held in Las Vegas, America, and unveiled four new Coolpad quad-core smartphones. In February 2013, the Group attended the Mobile World Congress 2013 held in Barcelona, Spain. More 3G and 4G Coolpad flagship smartphones were demonstrated at these exhibitions. In April 2013, one TD-LTE Coolpad model firstly launched at the 1st China Information Technology Expo (CITE) held in Shenzhen, China, got 2013 CITE Innovative Product and Application Award. In July 2013, the Group entered into FORTUNE China Top 500 Chinese Companies for the first time, ranking No. 342. In September 2013, the Group entered into the Deloitte Technology Fast 50 China 2013. In the year of 2013, the Group was awarded with Guangdong Quality Award and Shenzhen Mayor Quality Award by Guangdong province and Shenzhen municipal government respectively for its commitment to constant improvement in corporate management. Those events promoted the Coolpad brand to be of better reputation in the global smartphone market.

PRODUCT DEVELOPMENT

In the year of 2013, the Group launched a full range of Coolpad smartphones from high-end to mid- and low-end ones, offering the users a better build quality and better radio performance. As one of the few mobile phone producers who are able to offer any mode of wireless network smartphones worldwide, the Group successfully rolled out the products covering 3G and 4G network smartphones to the market. For EVDO-based smartphones, the Group launched 24 new models. For TD-SCDMA-based smartphones, the Group launched 22 new models. For WCDMA-based smartphones, the Group launched 12 new models. The Group launched 4G FDD-LTE models in the US and Europe customized for the local telecommunications carriers, as well as some TD-LTE new models in China during 2013. Especially, the shipments number of some new models exceeded more than one million units respectively, and plenty of star products series were created. These new models significantly contributed to the strong revenue and market share growth of the Group for the year 2013. 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

As more and more people are using smartphones to access Internet, the mobile internet has developed fast, and innovative technologies and applications based on the mobile internet has changed a lot, being restructuring the current information environment. The mobile internet brought the information period to the character of a new stage, named PMCC by the Group, which represents Personal, Mobile, Cloud, and Computer. In the PMCC period, the Group focused on the cloud strategy and put a lot of R&D resources on constructing the cloud solution. In terms of cloud applications and cloud services, the Group developed the self-owned Coolcloud, integrating the innovative technologies (cloud sharing, cloud synchronization, cloud security, and cloud health etc.) into Coolpad smartphones. These features provided better experience and application for Coolpad users.

The Group also focused on strengthening the R&D capability of launching new models and other innovative technologies, which brought the Group the absolute advantages while competing with its rivals in the smartphone market. Through providing the special CoolLife UI 5.0 which was equipped with multi-screen features and car mode etc. and affordable prices, Coolpad smartphones became more attractive and more popular. The Group accelerated the rhythm of time-to-market of the new models, and quickly launched to have strong market competitiveness and meet consumer demand. In the year of 2013, the Group set up more R&D centers worldwide and recruited more experienced engineers, to design and develop the products with better user experience and localized features.

MANAGEMENT DISCUSSION & ANALYSIS

As the high technologies developed fast, such as more effective chipsets, better camera module, and larger touch screen, 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 tier-one mobile chipset providers and some famous mobile industry designers to launch the popular smartphones. In the year of 2013, the Group launched several thousand-yuan Dual-core and Quad-core smartphones to satisfy the needs of the customers. The Group also rolled out several FDD-LTE and TD-LTE 4G dual model smartphones to lead the coming 4G smartphone market. 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 speeded up the smartphone up development cycle.

In 2013, the Group also launched its first waterproof smart watch with its cWatch C1, being the accessories for Coolpad smartphone. On top of the common functions, C1 had features like telephone, SMS, calendar reminders, sports and health management, and other notifications. In addition to launching the smart watches, the Group also introduced other wearable devices which were based on the personal health management, CoolHub. CoolHub functioned as a Bluetooth speaker and a micro SD card reader. CoolHub 2 was the upgrade version. It has more advanced functions, such as blood oxygen, alcohol, air quality detection based on these features, and also with the functions of movement step gauge and pressure gauge.

As a homegrown brand in China, Coolpad shared high brand awareness and user loyalty. In 2013, the Group continued to cooperate fully with the three major telecommunications carriers in China, as well as joined in the channel alliance established by the carriers, the social distributors, and the Group. In order to increase the overall market share and prepare for the booming online channel, the Group put Coolpad shopping store online (http://shop.coolpad.cn/) successfully, and paved the way for a new chapter of development in sales through e-commerce channel in the first half of 2013. The Group also built more self-owned sales channel sites this year to expand the market, including specialty stores and experience stores.

Outside the home market, the Group expanded the 4G smartphone segment through partnerships with international carriers in Europe and the USA. After launching the first 4G FDD-LTE smartphone in USA in 2012, the Group continued to roll out the next flagship 4G model in 2013. After a long term of preparation and basic works, the Group also entered into the Europe market finally in 2013. Coolpad became more well-known overseas with affordable smartphones and decent specifications.

In the year of 2013, the Group executed the delicacy management in order to improve general operation efficiency and control the overall cost. Delicacy management was a necessary and significant process to the Group while the competition of the 3G smartphone market was fierce. In terms of delicacy management, a series of measures were taken by the Group 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 in the year of 2013.

OUR OUTLOOK FOR 2014

For the year of 2014, the Group hopes to record a better performance in the global smartphone market. Although the global economic recovery might be at a mild pace and the competition of the smartphone market might still be fierce, the Group will use its best effort to keep the scale increase and gain more market share through leading 4G smartphone in China, expand the overseas markets, set up the CoolCloud eco-system, and enlarge the online channel.

MANAGEMENT DISCUSSION & ANALYSIS

As TD-LTE 4G licenses had been issued to the major three telecommunications carriers in China in December 2013, the Group officially released the development strategy "Coolpad LTE for all" in 2014. Thanks to the accumulated R&D construction of the 4G technology from 2009, the Group could be able to launch the 4G smartphones earlier and more competitive than most of the other smartphone makers in China. Meanwhile, the Group will transfer more than half of the R&D resources to the 4G products in 2014. More and more 4G new models will be launched and the prices of these new models could be affordable for the customers in 2014. The Group aimed for being the first thousand-yuan 4G smartphone provider, the first provider of thousand-yuan smartphone supporting five-mode ten-band, and the first dual-mode TD-LTE smartphone provider in China. The Group believes that these models will further accelerate the adoption of TD-LTE in China, and the 4G smartphone market will be the best chance for Coolpad to stand out among the global smartphone makers.

After the preliminary promotion and achievements in the cooperation with overseas telecommunications carriers, the Group will execute further development arrangement in Asia, North America, Europe and other international markets, and sell Coolpad smartphones in more countries and regions including the USA, the U.K., France, Germany, Greece, India and Taiwan, and increase the percentage of overseas sales in 2014. Due to its outstanding achievement and brand performance, the Group ranked No. 8 for "2013-2014 Global Intelligent Interconnection Devices Brands Top 10", jointly created by IDG and IDC during the forty-eighth CES show held in Las Vegas in January, 2014. With the brand of Coolpad becoming more worldwide well-known, the Group could expand much easier and smoother in the overseas markets. Meanwhile, with several R&D centers with international standard being set up worldwide, the Group will put more efforts on customizing user experience of Coolpad smartphone, and launching more excellent new models supporting mainstream types of network standard to meet the smartphone demands of the users globally.

The Group will continue to forge ahead in the mobile internet age, with the support of the CoolCloud platform. In the PMCC age with arrival of big data, smart cloud, and mobile internet, more people will use smartphones to access the Internet, translating to significant market opportunities. Especially, because of its fast internet access speed, stability and flexibility, LTE networks will bring the users better experience, and promote the users to increase the time spent on mobile. So the Group will strengthen partnerships with Internet players on the cloud strategy to share the opportunities, bring the users better experience surfing on the mobile internet, and construct the CoolCloud eco-system that is conducive to mutual development.

In addition to the development of strong partnerships with global telecommunications operators, the Group will expand its customer base by leveraging the online store in 2014. More competitive Coolpad smartphone will be launched solely through the online channel, in order to meet the demands of different users and raise the brand recognition of Coolpad. The proportion of online revenue is expected to increase fast in the future.

Going 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. Even though the environment of the smartphone market will be volatile, the Group will endeavor 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- and low-end smartphones. Besides, the Group believes that the 4G smartphone market will bring more opportunities to the Group. As opportunities coexist with challenges, the Group also sees the risk of the increasing competition in the smartphone market. The Group should work hard to achieve a new record high in 2014, through the innovative technologies, the hard-working philosophy, the quick-responded capabilities to the market demands, and the differentiated product positioning.

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 2013, 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.

BOARD COMPOSITION

The Board currently comprises seven directors, four of whom are executive directors, and three 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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Chung
Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. YANG Xianzu (resigned on 17 February 2014)

The biography of the directors are set out in the "Directors and Senior Management" on pages 26 to 28 of this annual report.

To the best knowledge of the Company, there is no financial or family relationship among the Board members.

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.

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, the Remuneration Committee meetings and the Nomination 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 2013, the Board held four meetings. Besides the Annual General Meeting ("AGM") held on 23 May 2013 and the Extraordinary General Meeting ("EGM") held on 29 November 2013, no other general meeting was held during the year ended 31 December 2013.

Attendance of individual directors at the Board meetings in 2013 is as follows:

Name of directors	Board Meetings	AGM	EGM
Executive Directors			
Mr. GUO Deying *(Chairman)*	4/4	0/1	0/1
Mr. JIANG Chao	4/4	1/1	1/1
Mr. LI Wang	4/4	0/1	0/1
Mr. LI Bin	4/4	0/1	0/1
Independent Non-executive Directors			
Mr. CHAN King Chung	4/4	1/1	0/1
Dr. HUANG Dazhan	3/4	0/1	0/1
Mr. YANG Xianzu (resigned on 17 February 2014)	4/4	0/1	0/1
Mr. XIE Weixin	4/4	0/1	0/1

Code Provision E.1.2 of the Code specifies that the chairman of the board should attend the annual general meeting. Mr. Guo Deying, the chairman of the Board, was absent from the annual general meeting held on 23 May 2013 due to his prior business engagement. Mr. Jiang Chao, an executive director and the elected chairman of that meeting, was available to answer questions in that meeting.

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 (resigned on 17 February 2014) and Mr. XIE Weixin.

The Remuneration Committee had two meetings in 2013 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.

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 2013 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.

AUDIT COMMITTEE

The Audit Committee, comprising all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Mr. YANG Xianzu (resigned on 17 February 2014), 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 2013, 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	2/3
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.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013 are set out in the Report of the Directors on page 41 of the Annual Report. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

NOMINATION COMMITTEE

The Nomination Committee 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 2013. 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.

BOARD DIVERSITY POLICY

The Board has adopted a "Board Diversity Policy" in relation to the nomination and appointment of new directors, which sets out: the selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

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 2013 (2012: HK$3.3 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$0.6 million (2012: HK$1.2 million) was incurred as remuneration to Ernst & Young for the provision of non-audit services to the Group which represented tax advisory services.

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 www.coolpad.com.hk 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.

CONSTITUTIONAL DOCUMENTS

During the year under review, the Company has not made any changes to its Memorandum and Articles of Association. An updated version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. GUO Deying

Mr. GUO Deying, aged 49, 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 Guangdong province and 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 43, 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 43, is an executive director of the Company. Mr. LI is also a deputy general manager of the Group and responsible for the Group's sales and marketing functions. 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 42, is an executive director of the Company. He is also a deputy general manager of the Group and responsible for the Group's business strategy and supply chain management. 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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Chung

Mr. CHAN King Chung, aged 51, 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 56, 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 72, 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 (resigned on 17 February 2014)

Mr. YANG Xianzu, aged 74, was an independent non-executive Director and he resigned on 17 February 2014. 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 HYDOO International Holdings Limited (the shares of which are listed on the main Board of the Stock Exchange, Stock code: 1396), 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

Dr. PAO YI-HISN

Dr. PAO YI-HISN, aged 58, is a Senior Vice President as well as Representative Corporate Management, responsible for Quality Control and Global Customer Services. Dr. PAO has extensive experiences in quality control, production and engineering. Prior to joining the group in 2012 , Dr. PAO worked at Ford Motor Company in Dearborn, Michigan USA as a plant manager and director of global core quality from 1988 to 2003; as a general manager of quality control and engineering for Toyota Motor Manufacturing, North America from 2003 to 2007;and as a vice president and Chief Quality Officer at Foxconn International Holding Ltd (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 2038) from 2007-2012 . Dr. Pao received a B.S. in Marine Engineering from National Taiwan Ocean University in 1978, a M.S. in Mechanical Engineering from University of Oklahoma in 1982, a Ph.D. in Applied Mechanics from The Ohio State University, USA in 1988 and an EMBA from Michigan State University, USA in 1998. Dr. Pao also authored a book on SMT assemblies reliability techniques published by McGraw Hill and published over 90 technical papers on international academic journals.

Mr. LI Liuqun

Mr. LI Liuqun, aged 51, is a deputy general manager of the Group and is responsible for overseas marketing sales functions. He has about 26 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. PAN Wenyan

Mr. PAN Wenyan, aged 50, is Chief Information Official of the Group, responsible for the internal processes optimisation and IT. Mr. PAN has more than 20 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 2013.

CHANGE OF COMPANY NAME

Pursuant to the special resolution passed at the extraordinary general meeting of the Company held on 29 November 2013 and the approval from the Registry of Companies in the Cayman Islands, the name of the Company was changed from "China Wireless Technologies Limited 中國無線科技有限公司" to "Coolpad Group Limited 酷派集團有限公司".

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, DIVIDENDS AND DISTRIBUTION

The Group's profit for the year ended 31 December 2013 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 138.

An interim dividend of HK2.0 cents per ordinary share was paid on 16 October 2013. The Directors do not recommend the payment of any final dividend for the year ended 31 December 2013.

The Board recommended that subject to the approval by the Company's shareholders at the forthcoming annual general meeting, the bonus shares will be issued on the basis of one bonus share for every one ordinary share held to shareholders whose names appear on the register of members on 3 June 2014.

CLOSURE OF REGISTER OF MEMBERS

The proposed bonus shares is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, which will be held on Friday, 23 May 2014. 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 21 May 2014 to 23 May 2014 (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 3:00 p.m. on 21 May 2014.

For determining the entitlement to the proposed bonus shares, the register of members of the Company will be closed from 29 May 2014 to 3 June 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed bonus shares, 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 2014.

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				
	2013*	2012*	2011*	2010*	2009*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**19,623,652**	14,390,166	7,340,495	4,592,699	2,604,865
Profit before tax	**437,373**	418,160	324,297	545,101	263,579
Tax	**(89,121)**	(93,857)	(53,228)	(64,836)	(23,574)
Profit for the year	**348,252**	324,303	271,069	480,265	240,005
Attributable to owners of the Company	**348,547**	325,581	271,364	480,265	240,005

	As at 31 December				
	2013*	2012*	2011*	2010*	2009*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**1,251,002**	1,244,373	1,151,664	951,550	831,430
Current assets	**8,810,732**	6,859,028	6,379,541	3,301,409	1,418,416
Non-current liabilities	**57,904**	98,645	143,212	180,318	245,096
Current liabilities	**7,242,936**	5,591,769	5,198,303	2,652,149	1,125,624
Net assets	**2,760,894**	2,412,987	2,189,690	1,420,492	879,126

* extracted from the published audited financial statements and restated/reclassified as appropriate

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

As at 31 December 2013, details of the Group's investment properties are set out below:

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	17,187.62 sq.m.

Details of movements in the investment properties of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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

SHARE AWARD PLAN

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

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 2.4 to the financial statements.

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$438,417,000. The Board do not recommend the payment of any final dividend for the year ended 31 December 2013. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$420,128,000 in total as at 31 December 2013, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 87.3% of the total sales for the year and sales to the largest customer included therein amounted to 31.6%. Purchases from the Group's five largest suppliers accounted for approximately 33.3% of the total purchases for the year ended 31 December 2013 and purchases from the largest supplier included therein amounted to 8.1%.

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.

REPORT OF THE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. CHAN King Chung
Mr. YANG Xianzu (resigned on 17 February 2014)

Under the provisions of the Articles, one-third of the Directors of the Company are subject to retirement by rotation and re-election at each annual general meeting.

In accordance with Articles of Association, Dr. HUANG Dazhan, Mr. CHAN King Chung and Mr. XIE Weixin 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 26 to 28 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 2013. The remaining independent non-executive Directors have entered into service agreements with the Company for a term of one year commencing from 21 November 2013.

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' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in notes 26 and 39 to the financial statements, no Director or controlling shareholders of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year under review.

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

As at 31 December 2013, 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	10,978,000	–	831,171,248	–	842,149,248	39.90
Mr. JIANG Chao	*3*	–	–	–	10,978,000	–	–	10,978,000	0.52
Mr. LI Bin	*4*	650,000	–	–	–	–	9,348,000	9,998,000	0.47
Mr. LI Wang	*4*	5,020,000	–	–	–	–	4,800,000	9,820,000	0.47
Mr. CHAN King Chung	*4*	192,000	–	–	–	–	--	192,000	0.01
Mr. HUANG Dazhan	*4*	144,000	–	–	–	–	--	144,000	0.01
Mr. XIE Weixin	*4*	192,000	–	–	–	–	--	192,000	0.01
Mr. YANG Xianzu (resigned on 17 February 2014)	*4*	192,000	–	–	–	–	--	192,000	0.01

REPORT OF THE DIRECTORS

LONG POSITIONS IN SHARES OF AN ASSOCIATED CORPORATION:

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

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"), 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 Mr. GUO 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 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 10,978,000 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 10,978,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the China Wireless Share Award Plan.

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

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

As at 31 December 2013, 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	39.38
Barrie Bay Limited ("Barrie Bay")	*2*	831,171,248	Interest of controlled corporation	831,171,248	39.38
HSBC International Trustee Limited ("HSBC Trustee")	*2*	831,171,248	Trustee	831,171,248	39.38
Ms. YANG Xiao	*1*	10,978,000	Spouse interest	842,149,248	39.90

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. Ms. YANG is also deemed to be interested in 10,978,000 shares held by Wintech Consultants Limited, which are deemed to be interested by Mr. Guo, the spouse of 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 2013, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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

	Number of share options								
Name or category of participant	At 1 January 2013	Grant during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2013	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	2,016,000	–	672,000	–	–	1,344,000	18-09-07	18-09-10 to 17-09-14	1.415
In aggregate – granted on 20 May 2008	1,732,000	–	1,732,000	–	–	–	20-05-08	20-05-09 to 19-05-13	0.674
In aggregate – granted on 20 May 2008	2,396,000	–	1,248,000	–	48,000	1,100,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 20 May 2008	6,854,000	–	1,998,000	–	584,000	4,272,000	20-05-08	20-05-11 to 19-05-15	0.674
In aggregate – granted on 20 May 2008	3,392,000	–	–	–	–	3,392,000	20-05-08	20-05-14 to 19-05-18	0.674
In aggregate – granted on 27 Feb 2009	2,156,000	–	1,376,000	–	84,000	696,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 30 Jun 2010	11,152,000	–	540,000	–	168,000	10,444,000	28-06-10	28-06-11 to 27-06-15	3.24
In aggregate – granted on 30 Jun 2010	12,704,000	–	416,000	–	192,000	12,096,000	28-06-10	28-06-12 to 27-06-16	3.24
In aggregate – granted on 30 Jun 2010	13,112,000	–	–	–	1,904,,000	11,208,000	28-06-10	28-06-13 to 27-06-17	3.24
In aggregate – granted on 30 Jun 2010	9,500,000	–	–	–	2,000,000	7,500,000	28-06-10	28-06-14 to 27-06-18	3.24
In aggregate – granted on 12 July 2011	36,092,000	–	7,744,000	–	2,520,000	25,828,000	12-07-11	12-07-12 to 11-07-16	1.678
In aggregate – granted on 12 July 2011	288,000	–	–	–	–	288,000	12-07-11	12-07-14 to 11-07-18	1.678
In aggregate – granted on 27 Dec 2012	43,520,000	–	–	–	6,814,000	36,706,000	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

REPORT OF THE DIRECTORS

Name or category of participant	At 1 January 2013	Grant during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2013	Date of grant of share options*	Exercise period of share options	Exercise price of share options**
	Number of share options								HK$ per share
Directors									
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	576,000	–	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	12-07-12 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	162,614,000	–	16,302,000	–	14,314,000	131,998,000			

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.

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company comprising the 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 2013.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

MATERIAL LEGAL PROCEEDINGS

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

SUFFICIENCY OF PUBLIC FLOAT

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

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. Exchange rate fluctuations between RMB and USD 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 2013.

EMPLOYEES AND REMUNERATION POLICY

During the year ended 31 December 2013, the Group's staff costs (including directors' remuneration) amounted to approximately HK$1,015.1 million (2012: HK$686.2 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 2013.

MATERIAL ACQUISITIONS AND DISPOSAL

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 44 to the financial statements.

AUDITORS

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

On behalf of the Board
Coolpad Group Limited

Guo Deying
Chairman, Executive Director and Chief Executive Officer

20 March 2014, Hong Kong

INDEPENDENT AUDITORS' REPORT

EY 安永

To the shareholders of Coolpad Group Limited
(formerly known as "China Wireless Technologies Limited")
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Coolpad Group Limited (formerly known as "China Wireless Technologies Limited" and the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 138, which comprise the consolidated and company statements of financial position as at 31 December 2013 and the consolidated statement of profit or loss and other 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 Coolpad Group Limited
(formerly known as "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 2013, 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 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	5	**19,623,652**	14,390,166
Cost of sales		**(17,093,633)**	(12,639,067)
Gross profit		**2,530,019**	1,751,099
Other income and gains	5	**382,373**	289,579
Selling and distribution expenses		**(1,301,713)**	(869,704)
Administrative expenses		**(984,340)**	(673,658)
Other expenses		**(165,501)**	(17,823)
Finance costs	7	**(23,134)**	(55,200)
Share of profits and losses of:			
A joint venture		**(471)**	(6,684)
Associates		**140**	551
PROFIT BEFORE TAX	6	**437,373**	418,160
Income tax expense	10	**(89,121)**	(93,857)
PROFIT FOR THE YEAR		**348,252**	324,303
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**58,452**	6,766
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**58,452**	6,766
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Loss on property revaluation		**(17,804)**	(7,827)
Income tax effect	32	**6,486**	1,542
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(11,318)**	(6,285)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**47,134**	481
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**395,386**	324,784

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Profit attributable to:			
Owners of the Company		**348,547**	325,581
Non-controlling interests		**(295)**	(1,278)
		348,252	324,303
Total comprehensive income attributable to:			
Owners of the Company	*11*	**395,681**	326,062
Non-controlling interests		**(295)**	(1,278)
		395,386	324,784
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*13*		
Basic		**16.58 cents**	15.39 cents
Diluted		**16.24 cents**	15.12 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**567,866**	536,973
Investment properties	*15*	**218,117**	309,690
Prepaid land lease payments	*16*	**153,491**	125,405
Intangible assets	*17*	**173,522**	160,858
Investment in a joint venture	*19*	**5,881**	6,533
Investments in associates	*20*	**53,843**	52,787
Available-for-sale investments	*21*	**28,884**	24,426
Other non-current assets	*25*	**38,844**	23,755
Deferred tax assets	*32*	**10,554**	3,946
Total non-current assets		**1,251,002**	1,244,373
CURRENT ASSETS			
Inventories	*22*	**2,594,764**	1,811,233
Trade receivables	*23*	**2,998,154**	2,183,160
Bills receivable	*24*	**211,551**	233,055
Prepayments, deposits and other receivables	*25*	**678,640**	648,445
Due from a director	*26*	**53**	–
Pledged deposits	*27*	**699,304**	709,595
Cash and cash equivalents	*27*	**1,628,266**	1,273,540
Total current assets		**8,810,732**	6,859,028
CURRENT LIABILITIES			
Trade payables	*28*	**1,876,058**	1,742,283
Bills payable	*29*	**2,695,579**	2,080,461
Other payables and accruals	*30*	**1,987,932**	1,170,201
Interest-bearing bank borrowings	*31*	**603,011**	535,950
Due to an associate	*39(A)*	**6,708**	7,518
Tax payable		**73,648**	55,356
Total current liabilities		**7,242,936**	5,591,769
NET CURRENT ASSETS		**1,567,796**	1,267,259
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,818,798**	2,511,632

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*31*	–	23,635
Deferred tax liabilities	*32*	**48,263**	62,154
Other non-current liabilities		**9,641**	12,856
Total non-current liabilities		**57,904**	98,645
Net assets		**2,760,894**	2,412,987
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*33*	**21,107**	20,944
Shares held for the Share Award Plan	*35*	**(240)**	(240)
Reserves		**2,737,075**	2,326,200
Proposed final dividend	*12*	–	62,836
		2,757,942	2,409,740
Non-controlling interests		**2,952**	3,247
Total equity		**2,760,894**	2,412,987

GUO Deying
Director

JIANG Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners				
	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
At 1 January 2012		21,474	518,756	(321)	390	105,491
Profit for the year		–	–	–	–	–
Other comprehensive income/(loss) for the year:						
Loss on property revaluation, net of tax		–	–	–	–	(6,285)
Exchange differences on translation of foreign operations		–	–	–	–	–
Total comprehensive income/(loss) for the year		–	–	–	–	(6,285)
Final 2011 dividend declared and paid		–	–	–	–	–
Difference between the proposed final 2011 dividend and the actual dividend paid		–	–	–	–	–
Issue of shares upon exercise of share options	*33*	188	27,027	–	–	–
Disposal of a revalued asset		–	–	–	–	(6,133)
Repurchase of shares		(718)	(96,432)	–	–	–
Equity-settled share option arrangements	*34*	–	–	–	–	–
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–
Shares awarded under the Share Award Plan	*35*	–	–	81	–	–
Appropriation to statutory reserve	*36(A)*	–	–	–	–	–
Proposed final 2012 dividend	*12*	–	(62,836)	–	–	–
At 31 December 2012		20,944	386,515*	(240)	390*	93,073*

of the Company									
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
47,748	65,484	41,304	1,152	210,783	1,129,899	43,005	2,185,165	4,525	2,189,690
–	–	–	–	–	325,581	–	325,581	(1,278)	324,303
–	–	–	–	–	–	–	(6,285)	–	(6,285)
–	–	–	–	6,766	–	–	6,766	–	6,766
–	–	–	–	6,766	325,581	–	326,062	(1,278)	324,784
–	–	–	–	–	–	(43,008)	(43,008)	–	(43,008)
–	–	–	–	–	(3)	3	–	–	–
–	(8,955)	–	–	–	–	–	18,260	–	18,260
–	–	–	–	–	6,133	–	–	–	–
–	–	–	718	–	(718)	–	(97,150)	–	(97,150)
–	19,847	–	–	–	–	–	19,847	–	19,847
–	(7,206)	–	–	–	7,206	–	–	–	–
–	–	483	–	–	–	–	564	–	564
44,243	–	–	–	–	(44,243)	–	–	–	–
–	–	–	–	–	–	62,836	–	–	–
91,991*	69,170*	41,787*	1,870*	217,549*	1,423,855*	62,836	2,409,740	3,247	2,412,987

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Notes	Attributable to owners				
		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
At 1 January 2013		**20,944**	**386,515**	**(240)**	**390**	**93,073**
Profit for the year		–	–	–	–	–
Other comprehensive income/(loss) for the year:						
Loss on property revaluation, net of tax		–	–	–	–	**(11,318)**
Exchange differences on translation of foreign operations		–	–	–	–	–
Total comprehensive income/(loss) for the year		–	–	–	–	**(11,318)**
Final 2012 dividend declared and paid		–	–	–	–	–
Difference between the proposed final 2012 dividend and the actual dividend paid		–	**(337)**	–	–	–
Interim 2013 dividend declared and paid		–	**(42,125)**	–	–	–
Issue of shares upon exercise of share options	*33*	**163**	**31,083**	–	–	–
Equity-settled share option arrangements	*34*	–	–	–	–	–
Appropriation to statutory reserve	*36(A)*	–	–	–	–	–
At 31 December 2013		**21,107**	**375,136***	**(240)**	**390***	**81,755***

* These reserve accounts comprise the consolidated reserves of HK$2,737,075,000 (2012: HK$2,326,200,000) in the consolidated statement of financial position.

of the Company									
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
91,991	69,170	41,787	1,870	217,549	1,423,855	62,836	2,409,740	3,247	2,412,987
–	–	–	–	–	348,547	–	348,547	(295)	348,252
–	–	–	–	–	–	–	(11,318)	–	(11,318)
–	–	–	–	58,452	–	–	58,452	–	58,452
–	–	–	–	58,452	348,547	–	395,681	(295)	395,386
–	–	–	–	–	–	(62,836)	(62,836)	–	(62,836)
–	–	–	–	–	–	–	(337)	–	(337)
–	–	–	–	–	–	–	(42,125)	–	(42,125)
–	(10,073)	–	–	–	–	–	21,173	–	21,173
–	36,646	–	–	–	–	–	36,646	–	36,646
34,540	–	–	–	–	(34,540)	–	–	–	–
126,531*	95,743*	41,787*	1,870*	276,001*	1,737,862*	–	2,757,942	2,952	2,760,894

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**437,373**	418,160
Adjustments for:			
Bank interest income	5	**(62,635)**	(61,572)
Finance costs	7	**23,134**	55,200
Share of loss of a joint venture		**471**	6,684
Share of profits of associates		**(140)**	(551)
Depreciation	6	**53,450**	41,503
Changes in fair value of investment properties	6	**96,139**	(10,428)
Loss on revaluation of property, plant and equipment	6	**36,239**	–
Amortisation of patents, licences and computer software	6	**37,700**	28,441
Amortisation of product development costs	6	**80,512**	44,793
Recognition of prepaid land lease payments	6	**3,042**	2,506
Gain on disposal of a piece of land	5	**–**	(276)
Loss on disposal of items of property, plant and equipment	6	**2,408**	5,170
Impairment of trade receivables	6	**17,392**	3,762
Impairment of other receivables	6	**1,167**	–
Write-down of inventories to net realisable value	6	**117,658**	95,673
Equity-settled share option expense	6	**36,646**	19,847
Equity-settled share award plan expense	6	**–**	564
Fair value gains on derivative financial instruments			
– transactions not qualifying as hedges	5	**–**	(7,239)
		880,556	642,237
Increase in inventories		**(897,204)**	(239,512)
Increase in trade receivables		**(832,464)**	(618,105)
Decrease in bills receivable		**20,482**	451,926
Increase in prepayments, deposits and other receivables		**(32,509)**	(334,419)
(Increase)/decrease in an amount due from a director		**(53)**	655
Increase in other non-current assets		**(2,085)**	(4,254)
Increase in trade payables		**143,327**	367,408
Increase in bills payable		**628,247**	467,925
Increase in other payables and accruals		**828,003**	224,468
Increase/(decrease) in an amount due to an associate		**(774)**	7,533
Decrease in other non-current liabilities		**(3,092)**	(1,658)
Cash generated from operations		**732,434**	964,204
Tax paid		**(85,602)**	(52,125)
Net cash flows from operating activities		**646,832**	912,079

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		**62,635**	61,572
Dividends received from an associate		**268**	–
Purchases of items of property, plant and equipment		**(147,075)**	(109,413)
Proceeds from disposal of a piece of land		**–**	4,943
Proceeds from disposal of items of property, plant and equipment		**2,471**	49,363
Additions to product development costs	*17*	**(77,959)**	(70,685)
Additions to patents and licences	*17*	**(46,662)**	(38,747)
Additions to computer software	*17*	**(2,496)**	(10,664)
Additions to prepaid land lease payments	*16*	**(29,109)**	(21,544)
Investment in a joint venture		**–**	(12,873)
Investments in associates		**–**	(17,415)
Purchase of available-for-sale investments		**(3,846)**	(13,076)
Settlement of derivative financial instruments		**–**	(1,138)
Decrease in pledged deposits		**6,823**	369,726
Net cash flows (used in)/generated from investing activities		**(234,950)**	190,049
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	*33*	**21,173**	18,260
Repurchase of shares	*33*	**–**	(97,150)
New bank loans		**3,059,285**	4,023,894
Repayment of bank loans		**(3,003,029)**	(4,725,969)
Interest paid		**(22,663)**	(61,944)
Dividends paid		**(105,298)**	(43,008)
Net cash flows used in financing activities		**(50,532)**	(885,917)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**361,350**	216,211
Cash and cash equivalents at beginning of year		**1,273,540**	1,058,857
Effect of foreign exchange rate changes, net		**(6,624)**	(1,528)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,628,266**	1,273,540
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*27*	**1,628,266**	1,273,540

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**52**	60
Investments in subsidiaries	18	**168,009**	133,520
Total non-current assets		**168,061**	133,580
CURRENT ASSETS			
Due from subsidiaries	18	**531,276**	252,336
Trade receivables	23	**–**	4,070
Prepayments, deposits and other receivables	25	**1,266**	4,437
Pledged deposits	27	**–**	124,394
Cash and cash equivalents	27	**216,684**	154,174
Total current assets		**749,226**	539,411
CURRENT LIABILITIES			
Due to subsidiaries	18	**76,555**	7,246
Other payables and accruals	30	**9,022**	8,324
Interest-bearing bank borrowings	31	**232,638**	–
Total current liabilities		**318,215**	15,570
NET CURRENT ASSETS		**431,011**	523,841
Net assets		**599,072**	657,421
EQUITY			
Issued capital	33	**21,107**	20,944
Shares held for the Share Award Plan		**(240)**	(240)
Reserves	36(B)	**578,205**	573,881
Proposed final dividend	12	**–**	62,836
Total equity		**599,072**	657,421

GUO Deying
Director

JIANG Chao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

Coolpad Group Limited, formerly known as China Wireless Technologies Limited, is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

Pursuant to the special resolution passed at the extraordinary general meeting of the Company held on 29 November 2013 and the approval from the Registry of Companies in the Cayman Islands, the name of the Company was changed from "China Wireless Technologies Limited 中國無線科技有限公司" to "Coolpad Group Limited 酷派集團有限公司".

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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.1 BASIS OF PREPARATION (CONTINUED)

BASIS OF CONSOLIDATION (CONTINUED)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition *Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of amendments to HKFRS 7, HKFRS 10, HKFRS 11, HKFRS 12, amendments to HKFRS 10, HKFRS 11 and HKFRS 12, HKFRS 13 and amendments to HKAS 1, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

(a) The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. Additional disclosures required by HKFRS 7 Amendments are included in note 40 to the financial statements.

(b) HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 Consolidation – Special Purpose Entities. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (i) power over an investee, (ii) exposure, or rights, to variable returns from its involvement with the investee, and (iii) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled. The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(c) 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. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011). The directors of the Company reviewed and assessed the classification of the Group's investment in joint arrangements in accordance with the requirements of HKFRS 11 and concluded that the Group's investment in Taiwan Coolpad Technology Limited ("Taiwan Coolpad") which was previously classified as a jointly controlled entity under HKAS 31 should be classified as a joint venture under HKFRS 11. Since the Group has applied equity method to account for its investment in Taiwan Coolpad prior to the adoption of HKFRS 11, the application of HKFRS 11 does not have significant impact on the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(d) HKFRS 12 sets out 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. Details of the disclosures for subsidiaries, a joint venture and associates are included in notes 18, 19 and 20 to the financial statements.

(e) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments 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.

(f) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of property, plant and equipment, investment properties and financial instruments are included in notes 14, 15 and 42 to the financial statements.

(g) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	*Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities*[1]
HKFRS 14 Amendments	*Regulatory Deferred Accounts*[3]
HKFRS 19 Amendments	*Amendments to HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	*Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	*Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, but is not in a position to state whether these new and revised HKFRSs will have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

An associate is an entity 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and a joint venture are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates or a joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint venture are eliminated to the extent of the Group's investments in the associates or the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or a joint venture is included as part of the Group's investments in associates or a joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT IN ASSOCIATES AND A JOINT VENTURE (CONTINUED)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

FAIR VALUE MEASUREMENT

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT (CONTINUED)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 of disposal, 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 statement of profit or loss and other comprehensive income 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.

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 and other comprehensive income in prior years. A reversal of such an impairment loss is credited to the statement of 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 2013

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 statement of 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 statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of 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 statement of 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 2013

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 statement of 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 statement of 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.

Research and development costs

All research costs are charged to the statement of 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.

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.

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 ten years.

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 statement of 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 statement of 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 are classified, at initial recognition, 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. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 statement of profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial investments

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 as 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 statement of 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 statement of profit or loss in other gains or losses. Interest earned whilst holding the available-for-sale financial investment is reported as interest income and is recognised in the statement of profit or loss as other income in accordance with the policy 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, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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 statement of profit or loss.

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) primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Financial assets carried at amortised cost (continued)

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of 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 statement of 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 investments

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 statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial investments (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. "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 statement of profit or loss – is removed from other comprehensive income and recognised in the statement of 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 are classified, at initial recognition, 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.

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, 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 repurchasing 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 statement of profit or loss. The net fair value gain or loss recognised in the statement of 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.

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 statement of 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 statement of 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 statement of 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.

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.

CASH AND CASH EQUIVALENTS

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROVISIONS

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

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

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 a joint venture, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

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 a joint venture, 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.

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 statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) services income from wireless applications, when the service is performed, provided that no significant obligations remain with the Group and the collection of the receivables is reasonably assured;

(c) rental income, on a time proportion basis over the lease terms; and

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

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. For grant of award shares, the fair value is determined by the market price of the Company's shares at the grant date.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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 statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED 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 statement of 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 2013

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 statement of 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 measured. 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 Group's subsidiaries in Mainland China is Renminbi ("RMB") while functional currencies of overseas subsidiaries are currencies other than the Hong Kong dollars. 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 statement of 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 statement of profit or loss.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and 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 judgment. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

JUDGEMENTS (CONTINUED)

Income tax (continued)

Deferred tax liabilities have 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$290,335,000 (2012: HK$193,966,000) (note 32).

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.

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 2013, the best estimate of the carrying amount of provision for product warranties was HK$98,032,000 (2012: HK$59,573,000) (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 2013, the best estimate of the carrying amount of capitalised product development costs was HK$120,294,000 (2012: HK$120,188,000) (note 17).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The determination of the written-down amount 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 2013, the carrying amount of inventories was approximately HK$2,594,764,000 (2012: HK$1,811,233,000) after netting off the allowance for inventories of approximately HK$187,646,000 (2012: HK$161,224,000).

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 2013, the provision recognised for trade receivables was HK$12,637,000 (2012: HK$3,866,000) (note 23).

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 2013 was HK$108,136,000 (2012: HK$183,035,000). Further details are set out in note 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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 provision of wireless application service; 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 or loss, 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 profits and losses of associates and a joint venture and finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude an investment in a joint venture, investments in associates, available-for-sale investments, deferred tax assets, an amount due from a director, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2013

	Mobile phone HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	19,623,652	–	19,623,652
Other revenue and gains	293,442	26,296	319,738
Total	19,917,094	26,296	19,943,390
Segment results	479,411	(72,937)	406,474
Reconciliation:			
Interest income			62,635
Share of loss of a joint venture			(471)
Share of profits of associates			140
Corporate and other unallocated expenses			(8,271)
Finance costs			(23,134)
Profit before tax			437,373
Segment assets	7,401,233	233,716	7,634,949
Reconciliation:			
Investment in a joint venture			5,881
Investments in associates			53,843
Corporate and other unallocated assets			2,367,061
Total assets			10,061,734
Segment liabilities	6,557,007	5,786	6,562,793
Reconciliation:			
Corporate and other unallocated liabilities			738,047
Total liabilities			7,300,840
Other segment information:			
Impairment of trade and other receivables	18,559	–	18,559
Write-down of inventories to net realisable value	117,658	–	117,658
Fair value losses on investment properties	–	96,139	96,139
Product warranty provision	206,714	–	206,714
Depreciation and amortisation	174,355	349	174,704
Capital expenditure*	287,215	–	287,215

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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	14,390,166	–	14,390,166
Other revenue and gains	181,343	46,664	228,007
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 joint venture			(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 joint venture			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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	2013 **HK$'000**	2012 HK$'000
Mainland China	**19,089,998**	13,129,655
Overseas	**533,654**	1,260,511
	19,623,652	14,390,166

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

(b) *Non-current assets*

	2013 **HK$'000**	2012 HK$'000
Mainland China	**1,233,933**	1,233,294
Overseas	**6,515**	7,133
	1,240,448	1,240,427

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 individually amounted to 10% or more of the Group's revenue is as follows:

	Operating segment	**2013** **HK$'000**	2012 HK$'000
Customer A	Mobile phone	**6,190,488**	4,037,160
Customer B	Mobile phone	**4,758,608**	3,070,609
Customer C	Mobile phone	**3,621,408**	2,542,080

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and trade discounts and service income received and receivable from wireless applications.

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

	2013 HK$'000	2012 HK$'000
Revenue		
Sale of mobile phones	**19,517,460**	14,358,830
Wireless application service income	**106,192**	31,336
	19,623,652	14,390,166
Other income		
Bank interest income	**62,635**	61,572
Government grants and subsidies*	**218,489**	144,213
Gross rental income	**26,296**	36,236
Others	**19,093**	29,615
	326,513	271,636
Gains		
Foreign exchange gains, net	**55,860**	–
Fair value gains on derivative financial instruments		
– transactions not qualifying as hedges	**–**	7,239
Gain on disposal of a piece of land	**–**	276
Fair value gains on investment properties	**–**	10,428
	55,860	17,943
	382,373	289,579

* 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 2013

6. PROFIT BEFORE TAX

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

	Notes	2013 HK$'000	2012 HK$'000
Cost of inventories sold		**17,071,196**	12,543,394
Depreciation	*14*	**53,450**	41,503
Amortisation of patents and licences and computer software*	*17*	**37,700**	28,441
Amortisation of prepaid land lease payments	*16*	**3,042**	2,506
Research and development costs*:			
Product development costs amortised	*17*	**80,512**	44,793
Current year expenditure		**617,639**	325,774
		698,151	370,567
Operating lease rental		**32,747**	28,607
Auditors' remuneration		**3,317**	3,258
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**826,482**	548,347
Staff welfare expenses		**56,504**	46,440
Pension scheme contributions (defined contribution scheme)		**95,483**	71,000
Equity-settled share option expense	*34*	**36,646**	19,847
Equity-settled share award plan expense	*35*	**–**	564
		1,015,115	686,198
Decrease/(increase) in fair value of investment properties†	*15*	**96,139**	(10,428)
Loss on revaluation of property, plant and equipment#	*14*	**36,239**	–
Impairment of trade receivables#	*23*	**17,392**	3,762
Impairment of other receivables#		**1,167**	–
Write-down of inventories to net realisable value		**117,658**	95,673
Direct operating expenses arising on rental-earning investment properties		**3,094**	4,781
Product warranty provision	*30*	**206,714**	92,702
Loss on disposal of items of property, plant and equipment#		**2,408**	5,170
Foreign exchange losses/(gains), net		**(55,860)**	4,316

6. PROFIT BEFORE TAX (CONTINUED)

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

Included in "Other expenses" in the consolidated statement of profit or loss

† Decrease in fair value of investment properties for the year ended 31 December 2013 has been included in "Other expenses" in the consolidated statement of profit or loss, while increase in fair value of investment properties for the year ended 31 December 2012 has been included in "Other income and gains" in the consolidated statement of profit or loss.

7. FINANCE COSTS

	Group	
	2013	2012
	HK$'000	HK$'000
Interest on:		
Bank loans	**20,449**	51,497
Discounted trade and bills receivables	**2,685**	3,703
	23,134	55,200

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	
	2013	2012
	HK$'000	HK$'000
Fees	**541**	536
Other emoluments:		
Salaries, allowances and benefits in kind	**13,857**	14,374
Performance related bonuses	**652**	1,868
Equity-settled share option expense	**2,157**	1,864
Pension scheme contributions	**108**	108
	16,774	18,214
	17,315	18,750

NOTES TO FINANCIAL STATEMENTS

31 December 2013

8. DIRECTORS' REMUNERATION (CONTINUED)

During the year and in prior years, certain directors were granted options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. 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.

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Fees	Equity-settled share option expense	Total remuneration
	HK$'000	HK$'000	HK$'000
2013			
Dr. HUANG Dazhan	**120**	**–**	**120**
Mr. XIE Weixin	**151**	**1**	**152**
Mr. CHAN King Chung	**120**	**–**	**120**
Mr. YANG Xianzu*	**150**	**1**	**151**
	541	**2**	**543**
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

* Resigned on 17 February 2014

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS

	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2013					
Executive directors:					
Mr. GUO Deying	**6,340**	**2**	**–**	**27**	**6,369**
Mr. JIANG Chao	**3,006**	**1**	**–**	**27**	**3,034**
Mr. LI Wang	**2,255**	**104**	**772**	**27**	**3,158**
Mr. LI Bin	**2,256**	**545**	**1,383**	**27**	**4,211**
	13,857	**652**	**2,155**	**108**	**16,772**

	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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2012: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2012: One) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**753**	1,323
Performance related bonuses	**829**	872
Equity-settled share option expense	**1,807**	–
Pension scheme contributions	**5**	31
	3,394	2,226

10. INCOME TAX EXPENSE

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

No provision for Hong Kong profits tax has been made (2012: 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.

	2013	2012
	HK$'000	HK$'000
Group:		
Current – Mainland China		
Charge for the year	**97,973**	89,292
Underprovision/(overprovision) in prior years	**5,921**	(6,796)
Deferred *(note 32)*	**(14,773)**	11,361
Total tax charge for the year	**89,121**	93,857

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	
	2013	2012
	HK$'000	HK$'000
Profit before tax	**437,373**	418,160
Tax at the statutory tax rate of 25%	**109,343**	104,540
Effect of tax concessions for certain subsidiaries	**(100,557)**	(52,192)
Effect of increase/(decrease) in tax rates on deferred tax	**(6,416)**	1,002
Adjustments in respect of current tax of previous periods periods	**5,921**	(6,796)
Results attributable to associates and a joint venture	**(21)**	(82)
Income not subject to tax	**(36,143)**	(1,291)
Expenses not deductible for tax	**19,579**	16,083
Additional deductible research and development expenses	**(23,230)**	(13,036)
Tax losses utilised from previous periods	**–**	(19,782)
Temporary differences not recognised	**115,170**	49,095
Tax losses not recognised	**5,475**	16,316
Tax charge at the Group's effective rate	**89,121**	93,857
The Group's effective income tax rate	**20.4%**	22.4%

The share of tax attributable to associates and a joint venture, amounting to HK$62,000 (2012: HK$104,000), is included in "Share of profits and losses of associates and a joint venture" in the consolidated statement of profit or loss and other 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, has been recognised as a key software developer within the state plan for 2012 and 2013 and was subject to CIT at a reduced rate of 10% for each of the two years ended 31 December 2012 and 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

10. INCOME TAX EXPENSE (CONTINUED)

(b) Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen"), the Company's wholly-owned subsidiary, has been recognised as a high-technology enterprise and was subject to CIT at a rate of 15% (2012: 15%) for the year ended 31 December 2013.

(c) Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad"), the Company's wholly-owned subsidiary, has been recognised as a software enterprise and was exempted from CIT for each of 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. In this regard, Xi'an Coolpad was subject to CIT at a rate of 12.5% (2012: 12.5%) for the year ended 31 December 2013.

(d) Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies"), the Company's wholly-owned subsidiary, has been recognised as a software enterprise and is exempted from CIT for each of the two years ending 31 December 2013 and 2014 and is entitled to a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2017. In this regard, SZ Coolpad Technologies was exempted from CIT for the year ended 31 December 2013.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2013 includes a loss of HK$10,870,000 (2012: HK$11,548,000) which has been dealt with in the financial statements of the Company (note 36(B)).

12. DIVIDENDS

	2013 **HK$'000**	2012 HK$'000
Interim – HK2 cents (2012: Nil) per ordinary share	**42,125**	–
Proposed final – Nil (2012: HK3 cents) per ordinary share	**–**	62,836
	42,125	62,836

The directors do not recommend the payment of any final dividend for the year ended 31 December 2013.

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 2,102,566,805 (2012: 2,114,853,935) in issue during the year, as adjusted to reflect the number of shares purchased for the Share Award Plan.

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:

	2013 **HK$'000**	2012 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**348,547**	325,581

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year	**2,103,770,805**	2,116,093,003
Weighted average number of shares purchased for the Share Award Plan	**(1,204,000)**	(1,239,068)
Adjusted weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,102,566,805**	2,114,853,935
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**43,470,519**	38,156,393
	2,146,037,324	2,153,010,328

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2013						
Cost or valuation:						
At 1 January 2013	433,452	16,423	155,786	11,235	34,356	651,252
Additions	–	26	34,717	–	96,246	130,989
Deficit on revaluation*	(54,043)	–	–	–	–	(54,043)
Disposals	(654)	(396)	(21,195)	–	(1,695)	(23,940)
Transfers	1,504	1,892	(7,556)	12,742	(8,582)	–
Exchange realignment	8,884	394	3,630	446	2,157	15,511
At 31 December 2013	389,143	18,339	165,382	24,423	122,482	719,769
Accumulated depreciation:						
At 1 January 2013	22,329	5,357	80,755	5,838	–	114,279
Depreciation provided during the year	21,288	5,222	24,448	2,492	–	53,450
Disposals	–	(396)	(18,665)	–	–	(19,061)
Exchange realignment	845	198	2,031	161	–	3,235
At 31 December 2013	44,462	10,381	88,569	8,491	–	151,903
Net book value:						
At 31 December 2013	344,681	7,958	76,813	15,932	122,482	567,866
Analysis of cost or valuation:						
At cost	4,551	18,339	162,382	24,423	122,482	332,177
At valuation	384,592	–	–	–	–	384,592
	389,143	18,339	162,382	24,423	122,482	716,769

* Deficit on revaluation for the year ended 31 December 2013 included a revaluation deficit of HK$72,295,000 of an industrial building. On 27 November 2013, the directors of the Group approved the reconstruction plan of certain properties located in Shenzhen (the "Reconstruction Plan"). Two industrial buildings, one being classified as property, plant and equipment ("PPE") and the other one being classified as investment property, are scheduled to be demolished for reconstruction in 2014, which resulted in a significant decrease in the fair values of these two buildings at 31 December 2013. The Group recorded revaluation reserve of HK$36,056,000 in respect of the industrial building being classified as PPE. As the revaluation reserve of this building was insufficient to cover its current year revaluation deficit of HK$72,295,000, the excess of the deficit, amounting to HK$36,239,000, has been charged to the statement of profit or loss for the year (note 6).

At 31 December 2013, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$56,324,000 (2012: HK$57,095,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Motor vehicles HK$'000
31 December 2013	
Cost:	
At 1 January 2013 and 31 December 2013	**518**
Accumulated depreciation:	
At 1 January 2013	**458**
Depreciation provided during the year	**8**
At 31 December 2013	**466**
Net book value:	
At 31 December 2013	**52**
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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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$341,741,000 based on their existing use. Revaluation deficits of HK$36,239,000 and HK$17,804,000, resulting from the above valuations, have been charged to profit or loss and other comprehensive income, respectively.

FAIR VALUE HIERARCHY

The following table illustrates the fair value measurement hierarchy of the Group's buildings stated at valuation:

	Fair value measurement at 31 December 2013 using			
	Quoted prices in active market (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for industrial properties	–	–	**341,741**	**341,741**

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	HK$'000
Carrying amount at 1 January 2013	**408,082**
Depreciation provided during the year	**(21,122)**
Deficit on revaluation recognised in other expenses in profit or loss	**(36,239)**
Deficit on revaluation recognised in other comprehensive income	**(17,804)**
Exchange realignment	**8,824**
Carrying amount at 31 December 2013	**341,741**

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Below is a summary of the valuation technique used and the key inputs to the valuation of buildings:

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Industrial properties	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.) b. Administrative expense rate c. Unpredictable expense rate d. Rate of newness	a. 424 to 5,077 b. 3% c. 3% d. 1%*, 91% to 100%

* 1% was applied to the properties under the Reconstruction Plan.

The Group has determined that the highest and best use of the buildings at the measurement date would be to convert those properties for residential purposes. For strategic reasons, the properties are not being used in this manner.

The DRC approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence.

15. INVESTMENT PROPERTIES

		Group	
	Notes	**2013 HK$'000**	2012 HK$'000
Carrying amount at 1 January		**309,690**	334,952
Net gain/(loss) from a fair value adjustment*	*6*	**(96,139)**	10,428
Transfer to owner-occupied property	*14*	**–**	(38,194)
Exchange realignment		**4,566**	2,504
Carrying amount at 31 December		**218,117**	309,690

* Net loss from a fair value adjustment for the year ended 31 December 2013 included a fair value loss of an industrial building of HK$107,023,000 under the Reconstruction Plan. As a result, the Group recorded a significant decrease in the fair values of its investment properties during the year.

15. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties consist of certain commercial and industrial properties in Mainland China. The directors of the Company have determined that the investment properties consist of two classes of asset, i.e., commercial and industrial, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2013 based on valuations performed by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$218,117,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

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

FAIR VALUE HIERARCHY

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement at 31 December 2013 using			
	Quoted prices in active market (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	–	–	111,672	111,672
Industrial properties	–	–	106,445	106,445
	–	–	218,117	218,117

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

15. INVESTMENT PROPERTIES (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties HK$'000	Industrial properties HK$'000
Carrying amount at 1 January 2013	99,515	210,175
Net gain/(loss) from a fair value adjustment recognised in profit or loss	10,156	(106,295)
Exchange realignment	2,001	2,565
Carrying amount at 31 December 2013	111,672	106,445

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Commercial properties	Direct comparison approach	a. Market monthly rental (RMB/sq.m.)	a. 113 to 132
		b. Discounted rate	b. 5.5% to 6%
		c. Market unit sale rate (RMB/sq.m.)	c. 27,000 to 28,000
Industrial properties	DRC approach	a. Construction cost (RMB/sq.m.)	a. 4,759 to 4,918
		b. Administrative expense rate	b. 3%
		c. Unpredictable expense rate	c. 3%
		d. Rate of newness	d. Zero*, 91%

* Zero was applied to the properties under the Reconstruction Plan.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

15. INVESTMENT PROPERTIES (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

The Group has determined that the highest and best use of the properties at the measurement date would be to convert those properties for commercial purposes. For strategic reasons, the properties are not being used in this manner.

The direct comparison approach requires a valuation by making reference to comparable sales evidence as available in the relevant market, and, where appropriate, using investment method by capitalising the net rental income derived from the existing tenancies with due allowance for the reversionary potential of the respective properties.

The DRC approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2013	2012
	HK$'000	HK$'000
Carrying amount at 1 January	**128,215**	112,721
Additions	**29,109**	21,544
Recognised during the year *(note 6)*	**(3,042)**	(2,506)
Disposal	**–**	(4,667)
Exchange realignment	**2,834**	1,123
Carrying amount at 31 December	**157,116**	128,215
Current portion included in prepayments, deposits and other receivables *(note 25)*	**(3,625)**	(2,810)
Non-current portion	**153,491**	125,405

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

17. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2013				
Cost:				
At 1 January 2013	**260,957**	**139,012**	**10,790**	**410,759**
Additions	**77,959**	**46,662**	**2,496**	**127,117**
Disposal	**–**	**(59,989)**	**–**	**(59,989)**
Exchange realignment	**6,448**	**2,860**	**283**	**9,591**
At 31 December 2013	**345,364**	**128,545**	**13,569**	**487,478**
Accumulated amortisation:				
At 1 January 2013	**140,769**	**109,132**	**–**	**249,901**
Provided during the year	**80,512**	**36,503**	**1,197**	**118,212**
Disposal	**–**	**(59,989)**	**–**	**(59,989)**
Exchange realignment	**3,789**	**2,024**	**19**	**5,832**
At 31 December 2013	**225,070**	**87,670**	**1,216**	**313,956**
Net carrying amount:				
At 31 December 2013	**120,294**	**40,875**	**12,353**	**173,522**
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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES

	Company 2013 HK$'000	Company 2012 HK$'000
Unlisted shares, at cost	**44,991**	44,991
Capital contribution in respect of employee share-based compensation#	**123,018**	88,529
	168,009	133,520

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/to subsidiaries are unsecured, non-interest-bearing and are repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and business	Nominal value of issued/ fully paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Yulong Infotech Inc.	BVI/ Mainland China	USD50,000	100	–	Investment holding
Digital Tech Inc.	BVI/ Mainland China	USD10	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. ("Dongguan Yulong")**	PRC/ Mainland China	RMB120,000,000	–	100	Manufacture of mobile phones

NOTES TO FINANCIAL STATEMENTS

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are as follows (continued):

Company	Place of incorporation/ registration and business	Nominal value of issued/ fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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	USD1,550,000	–	60	Sale of mobile phones
Coolpad Technologies Inc.	United States	USD2,300,000	–	100	Sale of mobile phones
Shenzhen Coolpad Technologies Co., Ltd.**	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets
Coolpad France	France	EUR197,000	–	100	Sale of mobile phones
Yulong Technologies (Hong Kong) Co., Limited	Hong Kong	–	–	100	Sale of mobile phones
China Wireless Technologies Limited	Cayman Islands	USD1	–	100	Investment holding
China Wireless Technologies Limited	Hong Kong	–	–	100	Investment holding
Xi'an Coolpad Telecommunications Equipment Co., Ltd.**	PRC/ Mainland China	RMB100,000,000	–	100	Production of mobile phones

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

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

NOTES TO FINANCIAL STATEMENTS

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19. INVESTMENT IN A JOINT VENTURE

	Group	
	2013	2012
	HK$'000	HK$'000
Share of net assets	**5,881**	6,533

Particulars of the joint venture are as follows:

Name	Place of registration and business	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 joint venture is indirectly held by the Company.

The Group's joint venture is considered not material to the Group. The following table illustrates the financial information of the Group's joint venture:

	Group	
	2013	2012
	HK$'000	HK$'000
Share of a joint venture's loss for the year	**(471)**	(6,684)
Share of a joint venture's total comprehensive income	**(471)**	(6,684)
Carrying amount of the Group's investment in a joint venture	**5,881**	6,533

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20. INVESTMENTS IN ASSOCIATES

	Group	
	2013	2012
	HK$'000	HK$'000
Share of net assets	**53,843**	52,787

The Group's trade payable balance with an associate is disclosed in note 39(A) to the financial statements.

Particulars of the associates are as follows:

Name	**Place of registration and business**	**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 Group's associates are considered not material to the Group, either individually or in aggregate.

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

	Group	
	2013	2012
	HK$'000	HK$'000
Share of associates' profit for the year	**140**	551
Share of associates' total comprehensive income	**140**	551
Aggregate carrying amount of the Group's investments in associates	**53,843**	52,787

NOTES TO FINANCIAL STATEMENTS

31 December 2013

21. AVAILABLE-FOR-SALE INVESTMENTS

	2013	2012
	HK$'000	HK$'000
Unlisted equity investments, at cost	**28,884**	24,426

The above unlisted equity investments are designated as available-for-sale financial assets and have no fixed maturity date. The above unlisted equity investments are equity securities issued by private entities established in the PRC.

At 31 December 2013, the above unlisted equity investments with a carrying amount of HK$28,884,000 (2012: HK$24,426,000) were 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 their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

22. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials	**1,006,737**	728,661
Work in progress	**274,780**	246,657
Finished goods	**1,313,247**	835,915
	2,594,764	1,811,233

23. TRADE RECEIVABLES

	Group		**Company**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**3,010,791**	2,187,026	**4,070**	4,070
Impairment	**(12,637)**	(3,866)	**(4,070)**	–
	2,998,154	2,183,160	**–**	4,070

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. 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.

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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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**2,968,544**	2,155,200	**–**	1,619
4 to 6 months	**24,868**	6,143	**–**	–
7 to 12 months	**5,337**	1,866	**–**	2,451
Over 1 year	**12,042**	23,817	**4,070**	–
	3,010,791	2,187,026	**4,070**	4,070
Less: Impairment	**(12,637)**	(3,866)	**(4,070)**	–
	2,998,154	2,183,160	**–**	4,070

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

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**3,866**	1,662
Impairment losses recognised *(note 6)*	**17,392**	3,762
Amount written off as uncollectible	**(8,697)**	(1,580)
Exchange realignment	**76**	22
	12,637	3,866

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$12,637,000 (2012: HK$3,866,000) with a carrying amount before provision of HK$39,569,000 (2012: HK$5,266,000).

23. TRADE RECEIVABLES (CONTINUED)

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**2,947,846**	2,155,200	**–**	1,619
Less than 3 months past due	**6,032**	6,143	**–**	–
More than 3 months past due	**17,344**	20,417	**–**	2,451
	2,971,222	2,181,760	**–**	4,070

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

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

	Group	
	2013	2012
	HK$'000	HK$'000
Within 3 months	**211,551**	233,055

Bills receivable are non-interest-bearing.

At 31 December 2013 and 2012, the Group did not have any past due or impaired bills receivable.

24. BILLS RECEIVABLE (CONTINUED)

TRANSFERRED FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2013, the Group endorsed certain bills receivable accepted by banks in the Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with an aggregate carrying amount of RMB1,015,558,000 (equivalent to HK$1,291,680,000). The Derecognised Bills had a maturity of one to three months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2013, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**25,529**	183,176	**1,213**	4,293
Deposits and other receivables	**662,151**	469,715	**53**	144
Prepaid expenses	**2,162**	5,331	**–**	–
Current portion of prepaid land lease payments *(note 16)*	**3,625**	2,810	**–**	–
Deposits for the purchase of property, plant and equipment	**24,017**	11,168	**–**	–
	717,484	672,200	**1,266**	4,437
Non-current portion	**(38,844)**	(23,755)	**–**	–
	678,640	648,445	**1,266**	4,437

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.

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26. DUE FROM A DIRECTOR

Particulars of the amount due from a director are as follows:

	Group	
	2013	2012
Name	**HK$'000**	HK$'000
Mr. JIANG Chao	**53**	–

The amount due from a director mainly represented advances to the director for business trips. The amount due is unsecured, non-interest-bearing and has no fixed terms of repayment.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,628,266**	1,273,540	**216,684**	154,174
Time deposits	**699,304**	709,595	**–**	124,394
	2,327,570	1,983,135	**216,684**	278,568
Less: Pledged deposits:				
Pledged for bills payable *(note 29)*	**(597,430)**	(575,819)	**–**	–
Pledged for short-term loans *(note 31(a))*	**–**	(133,776)	**–**	(124,394)
Pledged for issuance of letters of credit	**(70,682)**	–	**–**	–
Pledged for providing a performance guarantee by a bank	**(31,192)**	–	**–**	–
	(699,304)	(709,595)	**–**	(124,394)
Cash and cash equivalents	**1,628,266**	1,273,540	**216,684**	154,174

At the end of the reporting period, the cash and cash equivalents of the Group and of the Company denominated in RMB amounted to approximately HK$1,394,818,300 (2012: HK$1,087,881,000) and HK$59,839,000 (2012: HK$49,871,000), respectively. 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.

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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	
	2013	2012
	HK$'000	HK$'000
Within 3 months	**1,656,893**	1,680,626
4 to 6 months	**114,574**	56,220
7 to 12 months	**61,376**	5,233
Over 1 year	**43,215**	204
	1,876,058	1,742,283

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	
	2013	2012
	HK$'000	HK$'000
Within 3 months	**2,695,579**	2,080,461

At 31 December 2013, certain of the Group's bills payable were secured by time deposits of HK$597,430,000 (2012: HK$575,819,000) (note 27).

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30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2013	2012	**2013**	2012
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accrued royalties		**298,273**	328,978	**–**	–
Advances from customers		**586,419**	310,246	**2,605**	2,604
Product warranty provision	*(a)*	**98,032**	59,573	**–**	–
Accrued sales incentives		**632,672**	244,332	**–**	–
Other accruals		**9,470**	15,793	**–**	2,830
Other payables		**363,066**	211,279	**6,417**	2,890
		1,987,932	1,170,201	**9,022**	8,324

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	
		2013	2012
	Note	**HK$'000**	HK$'000
At 1 January		**59,573**	41,118
Additional provision	*6*	**206,714**	92,702
Amounts utilised during the year		**(170,161)**	(74,768)
Exchange realignment		**1,906**	521
At 31 December		**98,032**	59,573

The Group provides 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.

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31. INTEREST-BEARING BANK BORROWINGS

Group	2013			2012		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured			**–**	1.45-6.10	2013	216,088
Bank loans – unsecured	**2.12-2.19**	**2014**	**21,416**	1.21-6.00	2013	124,393
Bank loans – import and trust receipt loans	**0.84-0.89**	**2014**	**581,595**	1.21	2013	195,469
			603,011			535,950
Non-current						
Bank loans – secured			**–**	6.10	2014	23,635
			603,011			559,585
Analysed into bank loans repayable:						
Within one year or on demand			**603,011**			535,950
In the second year			**–**			23,635
			603,011			559,585

NOTES TO FINANCIAL STATEMENTS

31 December 2013

31. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

Company	2013			2012		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – import and trust receipt loans	**0.84**	**2014**	**232,638**	n/a	n/a	–

Notes:

(a) At 31 December 2012, certain of the Group's bank borrowings were secured by the pledge of the Group's time deposits which had a carrying value of approximately HK$133,776,000 (note 27).

At 31 December 2012, the Group's bank borrowings were also secured by 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 (note 15). In addition, certain of the Group's bank borrowings were also supported by guarantees provided by the following related parties of the Group as at that date:

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

* 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$581,595,000 (2012: HK$46,912,000) and HK$21,416,000 (2012: HK$512,673,000) bore interest at fixed rates and floating rates, respectively.

(c) At the end of the reporting period, the Group's bank borrowings of HK$21,416,000 (2012: Nil) and HK$581,595,000 (2012: HK$242,381,000) were denominated in European dollars ("EUR") and United States dollars ("USD"), respectively. At 31 December 2012, the Group had bank borrowings of HK$317,024,000 which were denominated in RMB.

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32. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

Group	Revaluation of buildings HK$'000	Withholding taxes HK$'000	Unrealised profit HK$'000	Total HK$'000
At 1 January 2012	52,629	8,209	–	60,838
Credited to equity during the year	(1,542)	–	–	(1,542)
Charged to the statement of profit or loss for the year	2,402	–	–	2,402
Exchange differences	456	–	–	456
At 31 December 2012 and 1 January 2013	**53,945**	**8,209**	**–**	**62,154**
Credited to equity during the year	**(6,486)**	**–**	**–**	**(6,486)**
Charged/(credited) to the statement of profit or loss for the year	**(9,683)**	**–**	**1,326**	**(8,357)**
Exchange differences	**952**	**–**	**–**	**952**
At 31 December 2013	**38,728**	**8,209**	**1,326**	**48,263**

DEFERRED TAX ASSETS

Group	Provision for impairment of assets HK$'000	Amortisation allowance in excess of related amortisation HK$'000	Total HK$'000
At 1 January 2012	7,984	4,919	12,903
Charged to the statement of profit or loss for the year	(7,958)	(1,001)	(8,959)
Exchange differences	(26)	28	2
At 31 December 2012 and 1 January 2013	**–**	**3,946**	**3,946**
Credited to the statement of profit or loss for the year	**–**	**6,416**	**6,416**
Exchange differences	**–**	**192**	**192**
At 31 December 2013	**–**	**10,554**	**10,554**

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32. DEFERRED TAX (CONTINUED)

DEFERRED TAX LIABILITIES NOT RECOGNISED

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

At 31 December 2013, the Group has not recognised deferred tax liabilities of HK$290,335,000 (2012: HK$193,966,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$2,903,350,000 (2012: HK$1,939,660,000), 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$108,136,000 (2012: HK$183,035,000) 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.

33. SHARE CAPITAL

	2013 **HK$'000**	2012 HK$'000
Authorised:		
20,000,000,000 (2012: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,110,745,000 (2012: 2,094,443,000) ordinary shares of HK$0.01 each	**21,107**	20,944

NOTES TO FINANCIAL STATEMENTS

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33. SHARE CAPITAL (CONTINUED)

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

	Notes	**Number of shares in issue**	**Issued capital** HK$'000	**Share premium account** HK$'000 *(note 36)*	**Total** HK$'000
At 1 January 2012		2,147,405,000	21,474	518,756	540,230
Issue of shares upon exercise of share options		18,830,000	188	27,027	27,215
Repurchase of shares		(71,792,000)	(718)	(96,432)	(97,150)
Proposed final 2012 dividend		–	–	(62,836)	(62,836)
At 31 December 2012 and 1 January 2013		**2,094,443,000**	**20,944**	**386,515**	**407,459**
Issue of shares upon exercise of share options	*(a) to (e)*	**16,302,000**	**163**	**31,083**	**31,246**
Difference between the proposed final 2012 dividend and the actual dividend paid		**–**	**–**	**(337)**	**(337)**
Interim 2013 dividend declared and paid		**–**	**–**	**(42,125)**	**(42,125)**
At 31 December 2013		**2,110,745,000**	**21,107**	**375,136**	**396,243**

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

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33. SHARE CAPITAL (CONTINUED)

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

(a) The subscription rights attaching to 672,000 share options (note 34) were exercised at the subscription price of HK$1.415 per share, resulting in the issue of 672,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$951,000.

(b) The subscription rights attaching to 4,978,000 share options (note 34) were exercised at the subscription price of HK$0.674 per share, resulting in the issue of 4,978,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$3,355,000.

(c) The subscription rights attaching to 1,952,000 share options (note 34) were exercised at the subscription price of HK$0.397 per share, resulting in the issue of 1,952,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$775,000.

(d) The subscription rights attaching to 956,000 share options (note 34) were exercised at the subscription price of HK$3.24 per share, resulting in the issue of 956,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$3,098,000.

(e) The subscription rights attaching to 7,744,000 share options (note 34) were exercised at the subscription price of HK$1.678 per share, resulting in the issue of 7,744,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$12,994,000.

34. SHARE OPTION SCHEME

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

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

34. 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:

	2013		2012	
	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	**2.1946**	**162,614**	2.0165	169,899
Granted during the year	**–**	**–**	2.328	48,496
Exercised during the year	**1.2988**	**(16,302)**	0.9698	(18,830)
Forfeited during the year	**2.3104**	**(14,314)**	2.3104	(32,288)
Expired during the year	**–**	**–**	1.2366	(4,663)
At 31 December	**2.2829**	**131,998**	2.1946	162,614

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.081 per share (2012: HK$1.734 per share).

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34. SHARE OPTION SCHEME (CONTINUED)

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

2013

Number of options '000	Exercise price* HK$ per share	Exercise period
1,344	1.415	18-09-10 to 17-09-14
3,848	0.674	20-05-10 to 19-05-14
4,272	0.674	20-05-11 to 19-05-15
3,392	0.674	20-05-14 to 19-05-18
696	0.397	27-02-10 to 26-02-14
4,000	0.397	27-02-13 to 26-02-17
10,444	3.24	28-06-11 to 27-06-15
12,096	3.24	28-06-12 to 27-06-16
11,208	3.24	28-06-13 to 27-06-17
11,500	3.24	28-06-14 to 27-06-18
27,228	1.678	12-07-12 to 11-07-16
288	1.678	12-07-14 to 11-07-18
36,706	2.328	27-12-13 to 27-12-17
4,976	2.328	27-12-15 to 27-12-19
131,998		

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34. SHARE OPTION SCHEME (CONTINUED)

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		

* 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 Group recognised a share option expense of HK$36,646,000 (2012: HK$19,847,000) during the year ended 31 December 2013 (note 6).

The 16,302,000 share options exercised during the year resulted in the issue of 16,302,000 ordinary shares of the Company and new share capital of HK$163,000 and share premium of HK$31,083,000 (before issue expenses), as further detailed in note 33 to the financial statements.

At the end of the reporting period, the Company had 131,998,000 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 131,998,000 additional ordinary shares of the Company and additional share capital of HK$1,320,000 and share premium of HK$300,016,000 (before issue expenses).

34. SHARE OPTION SCHEME (CONTINUED)

Subsequent to the end of the reporting period, on 10 January 2014, a total of 32,020,000 share options were granted to certain of the directors and employees of the Group in respect of their services to the Group in the forthcoming year. These share options vest on 10 January 2015 and have an exercise price of HK$3.08 per share and an exercise period ranging from 10 January 2015 to 10 January 2021. The price of the Company's shares at the date of grant was HK$3.08 per share.

Subsequent to the end of the reporting period, a total of 16,892,000 share options were exercised, resulting in the issue of 16,892,000 ordinary shares of the Company, with 1,840,000 share options being forfeited.

At the date of approval of these financial statements, the Company had 145,286,000 share options outstanding under the Scheme, which represented approximately 6.8% of the Company's shares in issue as at that date.

35. SHARE AWARD PLAN

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

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

(a) the Company's shares which will be purchased by the Trustee on the Stock Exchange at such times and prices as may be considered by the Trustee to be appropriate by utilising the fund to be paid by the Company to the Trustee;

(b) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the directors out of the Company's resources; and

(c) such shares which remain unvested and revert to the Trustee by reason of a lapse of an award.

35. 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. Up to 31 December 2013, the Group has already awarded 17,820,000 shares of the Company to its directors or employees pursuant to the Share Award Plan.

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.

36. RESERVES

(A) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 48 to 51 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.

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36. 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 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 upon exercise of share options	*33*	27,027	–	(8,955)	–	–	–	–	18,072
Repurchase of shares		(96,432)	–	–	–	718	–	(718)	(96,432)
Equity-settled share option arrangements		–	–	19,847	–	–	–	–	19,847
Shares awarded under the Share Award Plan		–	–	–	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	*12*	–	–	–	–	–	–	(3)	(3)
Proposed final 2012 dividend	*12*	(62,836)	–	–	–	–	–	–	(62,836)
At 31 December 2012 and 1 January 2013		**386,515**	**44,992**	**69,170**	**41,787**	**1,870**	**388**	**29,159**	**573,881**
Total comprehensive loss for the year	*11*	**–**	**–**	**–**	**–**	**–**	**–**	**(10,870)**	**(10,870)**
Issue of shares upon exercise of share options	*33*	**31,083**	**–**	**(10,073)**	**–**	**–**	**–**	**–**	**21,010**
Equity-settled share option arrangements		**–**	**–**	**36,646**	**–**	**–**	**–**	**–**	**36,646**
Difference between the proposed final 2012 dividend and the actual dividend paid		**(337)**	**–**	**–**	**–**	**–**	**–**	**–**	**(337)**
Interim 2013 dividend	*12*	**(42,125)**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,125)**
At 31 December 2013		**375,136**	**44,992**	**95,743**	**41,787**	**1,870**	**388**	**18,289**	**578,205**

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.

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37. OPERATING LEASE ARRANGEMENTS

(A) AS LESSOR

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to ten 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 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**6,295**	15,575
In the second to fifth years, inclusive	**14,430**	3,296
After five years	**12,004**	–
	32,729	18,871

(B) AS LESSEE

The Group leases certain buildings 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	
	2013	2012
	HK$'000	HK$'000
Within one year	**41,302**	21,912
In the second to fifth years, inclusive	**64,325**	33,163
	105,627	55,075

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38. COMMITMENTS

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

	Group	
	2013	2012
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**296,420**	49,456

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

39. RELATED PARTY TRANSACTIONS

(A) BALANCE WITH A RELATED PARTY:

	Group	
	2013	2012
	HK$'000	HK$'000
Due to an associate	**6,708**	7,518

The amount due to an associate is unsecured, non-interest-bearing and has no fixed terms of repayment.

(B) TRANSACTION WITH A RELATED PARTY:

	Group	
	2013	2012
	HK$'000	HK$'000
An associate:		
Purchase of raw materials	**41,059**	27,645

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

39. 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	
	2013	2012
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,294**	1,547
Pension scheme contributions	**99**	64
Equity-settled share option expense	**3,866**	315
Total compensation paid to other key management personnel	**8,259**	1,926

(D) GUARANTEES PROVIDED BY RELATED PARTIES

At 31 December 2012, certain of the Group's bank loans were guaranteed by a director of the Company and his spouse, details of which are included in note 31(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.

40. OFFSETTING OF FINANCIAL INSTRUMENTS

The Group entered into a series of set-off arrangements in respect of its restricted time deposits and interest-bearing bank borrowings in the current year. The agreements provided the Group conditional rights to set-off that are enforceable and exercisable.

Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements are set out as follows:

31 December 2013

	Gross amounts of recognised financial asset/ (liability)	Gross amounts of recognised financial (asset)/ liability set off in the statement of financial position	Net amounts of financial asset represented in the statement of financial position	Related amounts not off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Restricted time deposits	**763,162**	**(763,162)**	–	–	–	–
Interest-bearing bank borrowings	**(763,162)**	**763,162**	–	–	–	–

As at 31 December 2012, the Group had no such set-off arrangement.

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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					
	2013			2012		
	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	28,884	28,884	–	24,426	24,426
Trade receivables	2,998,154	–	2,998,154	2,183,160	–	2,183,160
Bills receivable	211,551	–	211,551	233,055	–	233,055
Financial assets included in prepayments, deposits and other receivables	196,365	–	196,365	208,796	–	208,796
Due from a director	53	–	53	–	–	–
Pledged deposits	699,304	–	699,304	709,595	–	709,595
Cash and cash equivalents	1,628,266	–	1,628,266	1,273,540	–	1,273,540
	5,733,693	28,884	5,762,577	4,608,146	24,426	4,632,572

FINANCIAL LIABILITIES

	Group	
	2013 Financial liabilities at amortised cost HK$'000	2012 Financial liabilities at amortised cost HK$'000
Trade payables	1,876,058	1,742,283
Bills payable	2,695,579	2,080,461
Financial liabilities included in other payables and accruals	1,108,329	718,056
Interest-bearing bank borrowings	603,011	559,585
Due to an associate	6,708	7,518
	6,289,685	5,107,903

NOTES TO FINANCIAL STATEMENTS

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41. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL ASSETS

	Company	
	2013	2012
	HK$'000	HK$'000
Due from subsidiaries	**531,276**	252,336
Trade receivables	**–**	4,070
Financial assets included in prepayment deposits and other receivables	**53**	144
Pledged deposits	**–**	124,394
Cash and cash equivalents	**216,684**	154,174
	748,013	535,118

FINANCIAL LIABILITIES

	Company	
	2013	2012
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Due to subsidiaries	**76,555**	7,246
Financial liabilities included in other payables and accruals	**6,417**	5,720
Interest-bearing bank borrowings	**232,638**	–
	315,610	12,966

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group	**Carrying amounts**		**Fair values**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Interest-bearing bank borrowings	**603,011**	559,585	**603,011**	559,585

Company	**Carrying amounts**		**Fair values**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Interest-bearing bank borrowings	**232,638**	–	**232,638**	–

Management has assessed that the fair values of trade and bills receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a director, pledged deposits, cash and cash equivalents, 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 Group's corporate finance team headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 31 December 2013 was assessed to be insignificant.

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42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

Group

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**–**	**603,011**	**–**	**603,011**

Group

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank borrowings	–	559,585	–	559,585

Company

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**–**	**232,638**	**–**	**232,638**

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

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.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings which bear interest at floating rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 31 to the financial statements.

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

	Group		Company	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in basis points**	**Increase/ (decrease) in profit before tax** HK$'000
2013				
RMB	**100**	**–**	**100**	**–**
USD	**100**	**750**	**100**	**300**
RMB	**(100)**	**–**	**(100)**	**–**
USD	**(100)**	**(750)**	**(100)**	**(300)**
2012				
RMB	100	(3,172)	100	–
USD	100	(2,424)	100	–
RMB	(100)	3,172	(100)	–
USD	(100)	2,424	(100)	–

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 borrowings are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD. 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.

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
2013		
If RMB weakens against USD	**5**	**(29,155)**
If RMB strengthens against USD	**(5)**	**29,155**
2012		
If RMB weakens against USD	5	(6,954)
If RMB strengthens against USD	(5)	6,954

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, an amount due from a director and available-for-sale instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group had concentrations of credit risk as 91% (2012: 92%) 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.

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

	2013		
	On demand and less than 12 months HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**1,876,058**	**–**	**1,876,058**
Bills payable	**2,695,579**	**–**	**2,695,579**
Financial liabilities included in other payables and accruals	**1,108,329**	**–**	**1,108,329**
Interest-bearing bank borrowings	**603,786**	**–**	**603,786**
Due to an associate	**6,708**	**–**	**6,708**
	6,290,460	**–**	**6,290,460**

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK (CONTINUED)

Group

	2012		
	On demand and less than 12 months HK$'000	1 to 5 years HK$'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

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

	2013	2012
	On demand and less than 12 months HK$'000	On demand and less than 12 months HK$'000
Due to subsidiaries	**76,555**	7,246
Financial liabilities included in other payables and accruals	**6,417**	5,720
Interest-bearing bank borrowings	**232,801**	–
	315,773	12,966

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2013 and 2012.

The Group monitors capital using a gearing ratio, which is net debt divided by 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

	2013 **HK$'000**	2012 HK$'000
Interest-bearing bank borrowings	**603,011**	559,585
Trade payables	**1,876,058**	1,742,283
Bills payable	**2,695,579**	2,080,461
Other payables and accruals	**1,987,932**	1,170,201
Due to an associate	**6,708**	7,518
Less: Cash and cash equivalents	**(1,628,266)**	(1,273,540)
Net debt	**5,541,022**	4,286,508
Equity attributable to owners of the Company	**2,757,942**	2,409,740
Capital and net debt	**8,298,964**	6,696,248
Gearing ratio	**67%**	64%

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44. EVENTS AFTER THE REPORTING PERIOD

(a) On 10 January 2014, 32,020,000 share options were granted to certain of the directors and employees of the Group in respect of their services to the Group, as further detailed in note 34 to the financial statements.

(b) The directors proposed to issue 1 bonus share at par value of HK$0.01 for each ordinary share held by the existing shareholders, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

45. COMPARATIVE AMOUNTS

Wireless application service income of HK$31,336,000 which was previously classified as other income and gains was reclassified as revenue. In the opinion of the directors, such reclassification of the prior year comparative amounts provides better presentation as to the nature of the transaction and accords with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2014.