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)

2014 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
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KY1-1111
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Shenzhen

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

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Edinburgh Tower
The Landmark
15 Queen's Road
Central
Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
Royal Bank House, 24 Shedden Road
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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PRINCIPAL BANKERS

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

COMPANY WEBSITE

www.coolpad.com.hk

STOCK CODE

2369

FINANCIAL HIGHLIGHTS

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

RESULTS

	Year ended 31 December (HK$'000)				
	2014	2013	2012	2011	2010
Revenue	**24,900,471**	19,623,652	14,390,166	7,340,495	4,592,699
Profit before tax	**606,629**	437,373	418,160	324,297	545,101
Income tax expense	**(92,551)**	(89,121)	(93,857)	(53,228)	(64,836)
Profit for the year	**514,078**	348,252	324,303	271,069	480,265

FINANCIAL POSITION

	As at 31 December (HK$'000)				
	2014	2013	2012	2011	2010
Non-current assets	**1,625,586**	1,251,002	1,244,373	1,151,664	951,550
Current assets	**11,218,500**	8,810,732	6,859,028	6,379,541	3,301,409
Non-current liabilities	**1,704,409**	57,904	98,645	143,212	180,318
Current liabilities	**7,779,761**	7,242,936	5,591,769	5,198,303	2,652,149
Net assets	**3,359,916**	2,760,894	2,412,987	2,189,690	1,420,492

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 2014 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 the dedication by our employees and strong brand recognition from our customers and consumers.

In 2014, the 4G industry still managed to grow further despite the slowdown in economic growth in China and the highly competitive domestic smartphone market. Despite the challenging operating environment, Coolpad's revenue climbed by 26.9% to HK$24.9 billion in 2014. Gross profit increased by 19.2% year-on-year to HK$3.02 billion while gross profit margin declined by 0.8 percentage point to 12.1%, mainly attributable to the more severe competition in the 4G smartphone market in the second half of 2014 and the impact of the subsidy cut by the telecommunications operators for smartphones. Profit for the year attributable to owners of the Company amounted to approximately HK$513 million, an increase of 47.1% year-on-year. Basic and diluted earnings per share were HK11.94 cents and HK11.69 cents, respectively.

Considering daily operation needs after the restructuring of the Group, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2014.

Under the development strategy of "Coolpad LTE for All" in 2014, we researched and developed more 4G new models in line with the roadmap of the new products, leveraging our advanced R&D capability in 4G technology and solid supply chain. In 2014, we launched several 4G new models and maintained leadership advantages in the 4G smartphone market in Mainland China.

CHAIRMAN'S STATEMENT

During 2014, we launched the thousand-yuan three-mode 4G smartphone in Mainland China, enabling more users to enjoy the faster 4G network and a superior experience using the mobile Internet. Meanwhile, we also became the first provider of the thousand-yuan smartphone supporting five-mode ten-band, and the first dual-standby TD 4G smartphone provider in Mainland China. The new flagship Magview effectively guaranteed user information security through its "dual-system and hard-isolation" security technology. It was also bolstered by a number of other features including but not limited to appearance, design, hardware configuration (dual 13MP rear camera, 2K display) and system optimization. The models of Dazen (a new smartphone brand of the Group sold through the E-commerce channel) offered more powerful features exceeding the expectations of Dazen fans and Internet users alike.

In 2014, both the China's and global smartphone markets maintained their expansion, which has driven growth for Coolpad. Although market competition in China's smartphone market continued to be strong, we nonetheless maintained our leadership position in China's 4G smartphone market riding on our R&D capability in advanced 4G technologies and comprehensive supply chain. Meanwhile, the sales channels of the smartphone market in Mainland China substantially changed in 2014. The smartphone sales through the e-commerce channel increased much faster during the year, and the proportion of sales through this channel rose significantly. Facing the challenging operating environment, we have promptly and effectively executed a business transformation and laid a solid foundation for the Group's healthy and long term growth through restructuring of the business units (BU).

We have completed the BU restructuring in 2014. After the restructuring, our smartphone business has been divided into four BUs: three domestic BUs including Coolpad in the telecommunications operators channel, Dazen in the E-commerce channel, and iVVi in the open retail channel as well as one overseas BU. According to the SINO-MR report, Dazen has vaulted into the top 3 position among the domestic brands in the smartphone E-commerce channel in Mainland China for the year 2014, meanwhile the development of iVVi sold through the open retail channel was progressing smoothly. The BU of iVVi was cooperating closely with a number of provincial tier-1 distributors as of the end of 2014. For the purpose of exploring the mobile Internet business, we plan to set up a corporation relations under the Dazen brand with Qihoo 360, a leading Internet company in China, combining the complementary strengths of the two companies and benefitting from the market opportunities arising from 4G technology and the mobile Internet.

CHAIRMAN'S STATEMENT

We were engaged in strengthening our R&D capability and bringing users a better smartphone experience during 2014. A new R&D center was set up in Nanjing for recruiting talents in central and eastern China. We've not only kept researching and developing 4G smart terminals, but have also started the work on the next-generation 5G technology and its smart terminals. We have also been participating in the projects of the wireless and network technology working group of the IMT 2020(5G) Promotion Group in Mainland China, while at the same time adapting and differentiating the functions and features of the Android operating system, thereby providing the special user-friendly CoolUI user interface in its new models.

As the advance of technologies has accelerated, we have responded quickly and rolled out the new models based on the top hardware platforms. Through outstanding design, larger screens, solid WiFi performance and increased responsiveness, the users could enjoy a superior smartphone experience. Through the strong R&D capabilities and the close collaboration with the components suppliers, we have speeded up the smartphone upgrade cycle, and incorporated the top components into its products, such as the OIS technology camera, 64-bit chipsets, and the dual 13 MP rear-facing camera.

We executed delicacy sophisticated management techniques in order to improve general operational efficiency in order to control the overall cost in 2014. Refining management was a necessary and critical process to cope with the fierce competition in Mainland China's smartphone market. We embarked on a series of measures to improve our administrative efficiency and internal operating process during the reporting period which contributed to the success in 2014. The first phase of the reconstruction plan of the Group in Shenzhen had already started in 2014.

The four BUs will operate autonomously in different sales channels in the future. The Coolpad brand will still focus on the telecommunications operators' channel and the Group will strengthen the close cooperation with the domestic and overseas telecommunications operators. The Dazen brand will focus on the online channel and emphasize the development of the mobile Internet business. The iVVi brand will focus on the open retail channel, and be sold through the provincial distributors. The new Dazen and iVVi models will be more user-centric and with far fewer models than before.

Looking ahead, the Group will execute the strategy of "LTE for All" guided by the concept of opening and sharing, as it broadens the sales channels in Mainland China and leverages its innovative capability and expertise to satisfy a diverse range of consumer needs to enhance our core competitive strengths and leading position in the 4G smartphone market. Our R&D resources will be exclusively allocated to the 4G products and the development of the mobile application services which are to be based on 4G products. We will strive diligently to achieve another new record performance in 2015 through developing innovative technologies guided by a philosophy of hard-work and facilitated by our capability to quickly respond to the market demands and formulate differentiated product positioning.

CHAIRMAN'S STATEMENT

THANKS

I would like to extend my sincere appreciation to our management team and staff of the Group for their hard work, dedication and proficiency, as any success we achieve comes as a result of their capability and their efforts. I also would like to thank our shareholders, business partners, customers and suppliers for their long-standing loyalty and support.

Guo Deying
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 23 March 2015

創新今天，成就未來

TODAY'S INNOVATION

SUCCESS IN THE FUTURE

Total Revenue HK$24,900.5 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		
	2014	2013	Variance (%)
Revenue			
4G Coolpad Smartphone	**12,331.5**	513.8	2,300.1
3G Coolpad Smartphone	**12,179.0**	18,934.8	(35.7)
Wireless application service income	**349.1**	106.2	228.7
Finance service income	**4.0**	–	–
Others	**36.9**	68.9	(46.4)
Total revenue	**24,900.5**	19,623.7	26.9
Cost of sales	**(21,885.0)**	(17,093.7)	28.0
Gross profit	**3,015.5**	2,530.0	19.2
Other income and gains	**431.7**	382.4	12.9
Selling and distribution expenses	**(1,434.8)**	(1,301.7)	10.2
Administrative expenses	**(1,233.9)**	(984.3)	25.4
Other expenses	**(83.8)**	(165.5)	(49.4)
Finance costs	**(87.3)**	(23.1)	277.9
Share of profits and losses of:			
A jointly-controlled entity	**(0.3)**	(0.5)	(40.0)
Associates	**(0.5)**	0.1	(600.0)
Profit before tax	**606.6**	437.4	38.7
Income tax expense	**(92.6)**	(89.1)	3.9
Profit for the year	**514.0**	348.3	47.6

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 periods indicated:

	Year ended 31 December			
	2014		2013	
	Revenue HK$ Million	**% of revenue**	Revenue HK$ Million	% of revenue
Revenue				
4G Coolpad smartphone	**12,331.5**	**49.5**	513.8	2.6
3G Coolpad smartphone	**12,179.0**	**48.9**	18,934.8	96.5
Wireless Application				
Service income	**349.1**	**1.4**	106.2	0.5
Finance Service	**4.0**	**–**	–	–
Others	**36.9**	**0.2**	68.9	0.4
Total	**24,900.5**	**100**	19,623.7	100

The Group recorded consolidated revenue for the year ended 31 December 2014 of HK$24,900.5 million, representing a growth of 26.9% as compared with HK$19,623.7 million for the year ended 31 December 2013. The growth of the consolidated revenue in 2014 was mainly driven by the strong increase in the sale of the Group's 4G Coolpad smartphone as a result of its leadership of 4G smartphone market in Mainland China during the year under review.

Revenue from the sales of 3G Coolpad smartphone decreased by 35.7% to HK$12,179.0 million for the year ended 31 December 2014 as compared with HK$18,934.8 million for year ended 31 December 2013. The decline in revenue of 3G Coolpad smartphone was primarily attributable to the strategic extension of the Group's product range from 3G smartphone to 4G smartphone in the year of 2014.

Revenue from the sales of 4G Coolpad smartphone increased by 2,300.1% to HK$12,331.5 million for the year ended 31 December 2014 as compared with HK$513.8 million for the year ended 31 December 2013. Revenue contribution from 4G smartphone largely increased from 2.6% in the year of 2013 to 49.5% in the year of 2014. The increase in the revenue of 4G Coolpad smartphone was primarily attributable to more 4G smartphone products and the fast increase in domestic 4G smartphone market during the reporting period.

Wireless application service income from the installation of mobile phone applications was HK$349.1 million in 2014, representing a growth of 228.7% as compared with HK$106.2 million in 2013, attributable to an increase in the sales volume of Coolpad smartphones. Revenue from the sales of other products decreased by HK$32.0 million, or 46.4%, to HK$36.9 million for the year ended 31 December 2014 as compared with HK$68.9 million for the year ended 31 December 2013. The decline in the revenue from the sales of other products during the year was mainly attributable to a decline in the sale of Coolpad smartphones' accessories.

MANAGEMENT DISCUSSION & ANALYSIS

GROSS PROFIT

	Year ended 31 December			
	2014		2013	
Gross profit	**Gross profit HK$ Million**	**Gross profit margin (%)**	Gross profit HK$ Million	Gross profit margin (%)
Total	**3,015.5**	**12.1**	2,530.0	12.9

The Group's overall gross profit for the year ended 31 December 2014 increased to HK$3,015.5 million, representing an increase of 19.2% as compared with HK$2,530.0 million for the year ended 31 December 2013. The Group's overall gross profit margin for the year ended 31 December 2014 decreased to 12.1%, down by 0.8% as compared with 12.9% for the year ended 31 December 2013. The decline in gross profit margin was primarily attributable to the intensified competition of the 4G smartphone market in the second half of 2014 and the impact of the subsidy cut from the domestic telecommunication operators to smartphones.

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to approximately HK$431.7 million for the year ended 31 December 2014, representing an increase of 12.9% as compared with HK$382.4 million for the year ended 31 December 2013. This increase was mainly attributable to the increase of government grants and subsidies received by the Group and the increase of bank interest income in 2014.

SELLING AND DISTRIBUTION EXPENSES

	Year ended 31 December	
	2014	2013
Selling and distribution expenses (HK$ million)	**1,434.8**	1,301.7
Selling and distribution expenses/Revenue (%)	**5.8**	6.6

Selling and distribution expenses of the Group for the year ended 31 December 2014 increased to HK$1,434.8 million, representing an increase of approximately HK$133.1 million, or 10.2%, as compared with HK$1,301.7 million for the year ended 31 December 2013. The net increase of HK$133.1 million was primarily attributable to the increased expenditure for marketing, advertising and promotion activities, and increased salaries of the Group's sales and marketing personnel to support the new product launches. As a percentage of total revenue, selling and distribution expenses decreased to 5.8% in 2014 from 6.6% in 2013. The net decrease of 0.8% as a percentage of total revenue was because of the stricter budget control on marketing, advertising and promotion activities during the year.

MANAGEMENT DISCUSSION & ANALYSIS

ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2014	2013
Administrative expenses (HK$ million)	**1,233.9**	984.3
Administrative expenses/Revenue (%)	**5.0**	5.0

Administrative expenses increased by 25.4% from HK$984.3 million for the year ended 31 December 2013 to HK$1,233.9 million for the year ended 31 December 2014. The net increase of HK$249.6 million was primarily attributable to the increased expenditure on the research and development ("R&D") and salaries of administrative management and R&D personnel.

INCOME TAX EXPENSE

For the year ended 31 December 2014, the Group's income tax expense amounted to HK$92.6 million (2013: HK$89.1 million). The increase in the income tax expense was mainly attributable to the increase of the Group's profit before tax in 2014.

NET PROFIT

For the year ended 31 December 2014, the Group recorded a net profit of HK$514.1 million, representing an increase of HK$165.8 million, or 47.6%, as compared with HK$348.3 million for the year ended 31 December 2013. The increase in the net profit was mainly because of the increase of revenue as a result of an increase in sales volume in 2014.

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2014, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 65.4% as at 31 December 2014 (2013: 67.0%). The increase was mainly attributable to the increase of capital as a result of increased long-term bank borrowings during the reporting period. The gearing ratio is equal to net debt divided by the sum of capital and net debt.

Cash and cash equivalents of the Group as at 31 December 2014 amounted to HK$2,959.1 million, while it was HK$1,628.3 million as at 31 December 2013.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION & ANALYSIS

PLEDGE OF ASSETS

As at 31 December 2014, the following assets of the Group were pledged for certain bank borrowings (2013: Nil): (i) Certain properties and plants of the Group located in Mainland China, the total book value of which were approximately HK$222.4 million; and (ii) Certain shares of the Company's subsidiaries. As at 31 December 2014, the Group's time deposits of approximately (i) HK$470.5 million were used to secure bills payable (2013: HK$597.4 million), (ii) HK$103.7 million were used as a security for issuance of letters of credit (2013: HK$70.7 million), (iii) HK$43.7 million were used as a security for the banks to provide a performance guarantee (2013: HK$31.2 million) and (iv) HK$23.7 million were used to secure certain long-term loans (2013: Nil).

BUSINESS REVIEW AND OUTLOOK

In the year of 2014, the global economy growth was lower than initially expected, and the global economy was still struggling to gain momentum. Meanwhile, the economy of China also entered into a lower growth period, which had been labeled by Chinese authorities as the "New Normal". Under the situation of such economy development, the global smartphone market grew 25.9% in the year of 2014 compared with that in the year of 2013, and the shipment volume reached 1.167 billion units, according to the report of Trend Force. In Mainland China, the shipment volume in 2014 were 390.0 million, increasing by 21.9%, according to the report of iResearch.

Competition in the smartphone market was still fierce in 2014. As the market continued to be consolidated in Mainland China, some brands faced huge challenges in the past year. Even though the environment of the market became more volatile compared with before, the popularity of 4G brought more opportunities for smartphone makers who prepared quite well technologically. In Mainland China, 4G industry increased fast in the year of 2014, even though 2014 was the first year of 4G era. The 4G net adds exceeded more than 97.2 million by the end of 2014, according to the report of MIIT. The 4G smartphone market in Mainland China also developed fast. The first one-thousand yuan 4G smartphone was launched in the first half of 2014, and the prices of most of the 4G smartphones became more affordable in the second half of 2014.

The sales channels of the smartphone market in Mainland China became quite different compared with before in the past year. The local telecommunication operators started to cut the subsidies on smartphones in 2014, which impacted the operators channel a lot especially in the second half of 2014. The operators used to be the largest smartphone sellers in Mainland China, but the situation started to be different in 2014. The smartphone sales through the e-commerce channel increased much faster in the year of 2014, and the proportion of this channel became much higher. The market share of the smartphone sales through the open channel also increased compared with before, and the operator market have decreased considerably.

HIGHLIGHTS FOR 2014

Although suffering the impact of the subsidies cut on smartphones, the Group still recorded a sustainable growth depending on the 4G smartphones sales in 2014. For the year ended 31 December 2014, the Group had a turnover of approximately HK$24,900.5 million, which increased by 26.9% from HK$19,623.7 million in 2013. The increase was mostly due to the Group's focus on the 4G smartphone market and was largely ascribed to its 4G smartphone sales in China. The net profit for the year ended 31 December 2014 was approximately HK$514.1 million, which increased by 47.6% from HK$348.3 million for the year ended 31 December 2013. Gross profit margin for the year ended 31 December 2014 was 12.1%, down by 0.8 percent points compared with 12.9% for the year ended 31 December 2013. The decrease of gross profit margin was mainly because of the intensified competition of the 4G smartphone market in the second half of 2014 and the impact of the subsidy cut to smartphones. Basic and diluted earnings per share of the Group reached HK11.94 cents and HK11.69 cents for the year ended 31 December 2014, respectively.

MANAGEMENT DISCUSSION & ANALYSIS

PRODUCT DEVELOPMENT

Under the development strategy of "Coolpad LTE for all" in 2014, the Group researched and developed more 4G new models in the roadmap of the new products, leveraging its advanced R&D capability on the 4G technology and solid supply chain. In the year of 2014, the Group launched more 4G new models than 3G ones, and kept the advantages of the leadership in 4G smartphones market in Mainland China.

In the year of 2014, the Group firstly launched the thousand-yuan three modes 4G smartphone in Mainland China, which helped more users enjoy the faster speed of the 4G network and better experience of the mobile Internet. Meanwhile, the Group was also the first provider of thousand-yuan smartphone supporting five-mode ten-band, and the first dual-standby TD 4G smartphone provider in Mainland China. The new flagship of Magview effectively guaranteed the users' information security, which based on its "dual-system and hard-isolation" security technology. It was also bolstered by a number of other features including but not limited to appearance design, hardware configuration (dual 13MP rear camera, 2K display) and system optimization. The models of Dazen (a new smartphone brand of the Group sold through e-commerce channel) brought more amazing features exceeding the expectations of the Dazen's fans and the Internet users.

STRATEGIC PROGRESS

The year of 2014 was an extraordinary year for the Group and the people of Coolpad. The Group completed the restructuring of its business units, and went through the third transition historically. The Group successfully entered into the smartphone field for the first transition in 2003, and successfully broke into the three 3G networks for the second transition in 2008. The third transition of opening and sharing helped the Group share the market opportunities brought by the 4G technology and mobile Internet with its partners. Opening and sharing was also poured into the culture of Group as a new one, which signified that there would be more partnerships of the Group for its development in the future.

After the restructuring of the business units ("BU"), the smartphone business of the Group has been divided into four BUs since the year of 2014. They are three domestic BUs and one overseas BU. The brands of the three domestic BUs are Coolpad of the telecommunication operators channel, Dazen of the e-commerce channel, and ivvi of the retail open channel respectively. The sales channels of the Group became more diversified, supporting the solid growth and the long-term development in the future.

In the past year, the 4G smartphone was the major focus in the whole smartphone market in Mainland China. The Group gained the 4G smartphone leadership in the first half of 2014, depending on the advanced R&D capability of the 4G technology and well prepared supply chain, given that the whole 4G smartphone market grew kind of slower than the initial consensus expectation in the first half of the year. According to SINO-MR monthly reports in 2014, Coolpad was the largest 4G smartphone provider in Mainland China in terms of accumulative shipped volume as of the third quarter of 2014. The Group earned a high brand reputation in the 4G smartphone field.

As the entry level of the 4G smartphone became lower with the help of the relatively mature 4G chipset solution, the competition of the 4G smartphone market also became intensified in the second half of 2014. Meanwhile, because of the impact of the telecommunication operators' subsidy cut to smartphones, the sales of the smartphones through the operators channel were squeezed more in the second half. On the other hand, the smartphone sales through the online channel and the retail open channel soared compared with before, due to more 4G smartphone choices for the users in the second half of 2014. Because of those factors, the smartphone sales of the Group was lower than expected in the second half of 2014.

MANAGEMENT DISCUSSION & ANALYSIS

The Group responded proactively and robustly to the change of the sales channels of the smartphone market in Mainland China and completed its transition quickly and effectively in 2014. Dazen recorded a good result during the past year, even though it was the first year for Dazen. According to SINO-MR report, Dazen entered into top three position among the domestic brands in the e-commerce channel of the smartphone market in Mainland China for the year of 2014. For the purpose of exploring the mobile Internet, the Group prepared to set up a corporation relations under the brand of Dazen with Qihoo, which is a leading Internet company in China which offers comprehensive, effective and user-friendly Internet and mobile security products and services to protect users' computers and mobile devices against malware and malicious websites. Meanwhile, the development of ivvi sold through the retail open channel was in a smooth process. The Group has established a close cooperation with a number of provincial tier-1 distributors since late 2014.

The Group was engaged in strengthening its R&D capability and bringing users the best experience of the smartphone. A new R&D center was set up in Nanjing for recruiting the talents in Central & Eastern China. The Group not only kept researching and developing smart terminals of the 4G technology, but also started the work of the next 5G technology and its smart terminals. The Group had already been participating into the projects of the wireless and network technology group of IMT 2020(5G) Promotion Group in Mainland China. The Group also differentiated the functions and features of the Android operating system, and provided the special CoolUI on its new models.

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 top hardware platforms. Through great build quality, larger screens, solid radio performance and increased responsiveness, the users could enjoy better experiences of the smartphone. Depending on the strong R&D capabilities and the close collaboration with the components suppliers, the Group speeded up the smartphone upgrade cycle, and applied the top components into its products, such as the camera with the OIS technology, 64-bit chipsets, and the dual 13 MP rear camera.

The first phase of the reconstruction plan of the Group in Shenzhen had already started at the end of 2014. The Group executed the delicacy management in order to improve general operation efficiency and control the overall cost in 2014. Delicacy management was a necessary and significant process to the Group while the competition of the smartphone market in Mainland China 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 2014.

OUR OUTLOOK FOR 2015

The Group will continue to maintain the advantages on the 4G smartphone segment, and diversify the sales channels in Mainland China. As the smartphone market in Mainland China will grow slower compared with before and step into the "New Normal", the Group will execute the strategy of "LTE for all" and the notion of opening and sharing to ensure its long-term sustainable growth.

The year of 2015 is the second year for LTE in Mainland China. With the larger 4G-LTE network coverage and the better user experience of the 4G network, the 4G smartphone market will grow much faster in 2015 in Mainland China. The FDD-LTE commercial license which has been issued in February 2015 will be another catalyst promoting the development of China's 4G to popularity at more rapid speed, and also bring larger 4G smartphone market volume. The Group will maintain the solid growth momentum riding on the fast growing 4G smartphone market through the diversified BUs. To support its growth, the R&D resources of the Group will be totally transferred to the 4G products and the development of the mobile application services based on its products.

MANAGEMENT DISCUSSION & ANALYSIS

The four BUs will operate separately in different sales channels in the future. The brand of Coolpad will still focus on the telecommunications operators' channel. The Group will strengthen the close cooperation with the domestic and overseas telecommunications operators. The brand of Dazen will focus on the e-commerce channel and emphasize the development of the mobile Internet business. The brand of ivvi will focus on the retail open channel, and sell through the provincial distributors. The new models of Dazen and ivvi will be more user-centric and the models number will be much less than that of before. Some warm special services will also be provided to the users who need, such as the individual words carved on the cover for private custom.

The Group believes that product innovation and R&D investments are critical to its success in this highly competitive smartphone market. The Group will continue to develop and optimize its standard software and hardware development platform through close cooperation with the industry leading suppliers so as to introduce more feature-rich, ease-to-use smartphones and services. The top hardware will be more applied into the next flagship models, such as the latest chipsets, dual rear camera, and better display with higher resolution. Metal casing and tempered glass cover may also be more equipped into more new models. The Group will not only improve the hardware specifications, but also optimize the software to support the best performance of its hardware.

The Group will constantly explore and invest into the leading-edge technologies, such as 5G network, mobile cloud, and mobile security. Meanwhile, factoring in the fast growth of the mobile Internet and the growing adoption of 4G services, the Group will partner with the Internet companies to provide better experience of the mobile applications to its users and seize the business opportunities brought by the mobile Internet. As information security risks for smartphone users are becoming more and more important, the Group will put more efforts on safeguarding the users' smartphone and data from mobile security threats.

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 leadership in the 4G smartphone market, depending on the famous brand reputation, the diverse affordable product portfolio and the restructuring of the sales channels. As opportunities coexist with challenges, the Group also sees the risk of the increasing competition in the smartphone market, especially of the decreasing gross profit margin of Dazen in e-commerce channel sales. The Group will work hard to achieve a new record high in 2015, 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 2014, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

BOARD OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board currently comprises 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 25 to 27 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.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDS")

The INEDs have the same duties of care, skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors. The INEDs have expertise in respective areas of accounting, business management and possess in-depth industry knowledge. With their professional knowledge and experience, the INEDs have advised the Company on its operation and management; participated in the Audit Committee meetings, 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 Annual 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 2014, the Board held four meetings. Besides the Annual General Meeting ("AGM") held on 23 May 2014, no other general meeting was held during the year ended 31 December 2014.

Attendance of individual directors at the Board meetings in 2014 is as follows:

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

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

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

The Remuneration Committee is made up of all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Dr. HUANG Dazhan, Mr. YANG Xianzu (resigned on 17 February 2014) and Mr. XIE Weixin.

The Remuneration Committee had two meetings in 2014 which were attended by all the members of the Remuneration Committee, which were consulted by Mr. GUO Deying, the chairman of the Company, to review the remuneration packages of Directors and senior management of the Group and share option scheme.

No Director took part in any discussion about his or her own remuneration.

PROVISION OF INFORMATION TO DIRECTORS

To assist the Directors in the discharge of their respective duties, the Company will provide every Director with a comprehensive induction program on the first occasion of his appointment, in which the Director will be provided with information on the Company's organisation and business, including the membership, duties and responsibilities of the Board, the various Board committees and the Management; corporate governance practices and procedures; and the latest financial information of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key members of the Management.

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

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors in the form of seminar and provision of training materials. A summary of training received by Directors during the year ended 31 December 2014 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. XIE Weixin	√

SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee, comprising all 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 2014, the Audit Committee held three meetings. The attendance record of each member of the Audit Committee is set out below:

Name	**Number of meetings attended**
Mr. CHAN King Chung *(Chairman)*	3/3
Dr. HUANG Dazhan	3/3
Mr. YANG Xianzu(resigned on 17 February 2014)	0/3
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 judgement of the Board and the Management with an appropriate consideration to materiality.

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

CORPORATE GOVERNANCE FUNCTIONS

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

CORPORATE GOVERNANCE REPORT

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 2014. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2014 are set out in the Report of the Directors on page 39 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 (resigned on 17 February 2014), Mr. CHAN King Chung 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 2014. 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. CHAN King Chung	1/1
Mr. YANG Xianzu (resigned on 17 February 2014)	0/1

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.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS

Ernst & Young has been appointed as the External Auditors of the Group for the year under review. An amount of approximately HK$3.5 million was charged by Ernst & Young for its audit services provided to the Group in 2014 (2013: 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 40 of this report.

During the year, HK$0.4 million (2013: HK$0.6 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 interim reports 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 50, 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 44, 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 was an independent non-executive director of Ming Fung Jewellery Group Limited (the shares of which are listed on the Stock Exchange, Stock Code: 860) from 2010 to 2015. 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 44, 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 15 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 43, 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 15 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 52, 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 57, 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 73, 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 Mr. XIE was 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) from 2010 to 2014.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Dr. PAO YI-HISN

Dr. PAO YI-HISN, aged 59, 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 52, is a deputy general manager of the Group and is responsible for Customer Services. He has about 27 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 51, 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 2014.

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. During the year, the Group commenced its financing service business through a newly established subsidiary, Shen Zhen Huiying Finance Co., Ltd.. Other than this development, 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 2014 and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 42 to 140.

An interim dividend of HK1.0 cent per ordinary share was paid on 16 October 2014. Considering daily operation needs after the restructuring of the Group, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2014.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Monday, 18 May 2015.

CLOSURE OF REGISTER OF MEMBERS

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 14 May 2015 to 18 May 2015 (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 at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 13 May 2015.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

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

	Year ended 31 December				
	2014*	2013*	2012*	2011*	2010*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**24,900,471**	19,623,652	14,390,166	7,340,495	4,592,699
Profit before tax	**606,629**	437,373	418,160	324,297	545,101
Tax	**(92,551)**	(89,121)	(93,857)	(53,228)	(64,836)
Profit for the year	**514,078**	348,252	324,303	271,069	480,265
Attributable to owners of the Company	**512,855**	348,547	325,581	271,364	480,265

	As at 31 December				
	2014*	2013*	2012*	2011*	2010*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**1,625,586**	1,251,002	1,244,373	1,151,664	951,550
Current assets	**11,218,500**	8,810,732	6,859,028	6,379,541	3,301,409
Non-current liabilities	**1,704,409**	57,904	98,645	143,212	180,318
Current liabilities	**7,779,761**	7,242,936	5,591,769	5,198,303	2,652,149
Net assets	**3,359,916**	2,760,894	2,412,987	2,189,690	1,420,492

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

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

As at 31 December 2014, 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.

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 34 and 35 to the financial statements.

SHARE AWARD PLAN

Details of movement in the Company's shares held for the Share Award Plan during the year under review are set out in note 36 to the financial statements.

PENSION SCHEME

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's existing articles of association (the "Articles of Association") 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.

REPORT OF THE DIRECTORS

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

The Group issued bonus shares on 13 June 2014 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.

During the reporting period, 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 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$435,726,000. The Board do not recommend the payment of any final dividend for the year ended 31 December 2014. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$459,824,000 in total as at 31 December 2014, 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 73.9% of the total sales for the year and sales to the largest customer included therein amounted to 27.6%. Purchases from the Group's five largest suppliers accounted for approximately 35.6% of the total purchases for the year ended 31 December 2014 and purchases from the largest supplier included therein amounted to 11.1%.

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.

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)

REPORT OF THE DIRECTORS

Under the provisions of the Articles of Association, 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 the Articles of Association, Mr. GUO Deying, Mr. LI Bin and Mr. LI Wang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting (the "AGM") of the Company.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 25 to 27 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 2014 for a term of three years commencing from 21 November 2014.

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.

Each of Dr. HUANG Dazhan, Mr. XIE Weixin and Mr. CHAN King Chung,the independent non-executive Directors have entered into service agreements with the Company for a term of one year commencing from 21 November 2014.

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 27 and 40 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2014, 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, 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*	–	1,662,342,496	420,000	–	1,662,342,496	–	1,662,762,496	38.71
Mr. JIANG Chao	*3*	25,200,000	–	–	420,000	–	–	25,620,000	0.60
Mr. LI Bin	*4*	17,500,000	–	–	–	–	11,200,000	28,700,000	0.67
Mr. LI Wang	*4*	10,040,000	–	–	–	–	9,600,000	19,640,000	0.46
Mr. CHAN King Chung	*4*	384,000	–	–	–	–	–	384,000	0.01
Mr. HUANG Dazhan	*4*	288,000	–	–	–	–	–	288,000	0.01
Mr. XIE Weixin	*4*	384,000	–	–	–	–	–	384,000	0.01

LONG POSITIONS IN SHARES OF AN ASSOCIATED CORPORATION:

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

REPORT OF THE DIRECTORS

Notes:

1. The entire issued share capital of Data Dreamland Holding Limited ("Data Dreamland") is held by Barrie Bay Limited ("Barrie Bay"), which is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a unit trust held by HSBC International Trustee Limited ("HSBC Trustee") acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. GUO Deying ("Mr. GUO"), an executive Director, and his spouse, Ms. YANG Xiao ("Ms. YANG"), 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 1,662,342,496 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 1,662,342,496 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 420,000 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 420,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the Coolpad Group Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the Coolpad Group 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 2014, 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*	1,662,342,496	Beneficial owner	1,662,342,496	38.70
Barrie Bay Limited ("Barrie Bay")	*2*	1,662,342,496	Interest of controlled corporation	1,662,342,496	38.70
HSBC International Trustee Limited ("HSBC Trustee")	*2*	1,662,342,496	Trustee	1,662,342,496	38.70
Ms. YANG Xiao	*1*	1,662,762,496	Spouse interest	1,662,762,496	38.71

Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Unit Trust is a unit trust 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 420,000 shares held by Wintech Consultants Limited, which are deemed to be interested by Mr. Guo, the spouse of Ms. YANG.

2. The 1,662,342,496 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 2014, 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 35 to the financial statements.

REPORT OF THE DIRECTORS

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

Name or category of participant	Number of share options												Date of grant of share options*	Exercise period of share options	Exercise price of share options before completion of the bonus issue**	Exercise price of share options after completion of the bonus issue**
						Number of options At 13 June 2014										
	At 1 January 2014	Grant before completion of the bonus issue	Exercised before completion of the bonus issue	Expired before completion of the bonus issue	Forfeited before completion of the bonus issue	before completion of the bonus issue	Adjust upon completion of the bonus issue	After completion of the bonus issue	Exercised after completion of the bonus issue	Expired after completion of the bonus issue	Forfeited after completion of the bonus issue	At 31 December 2014			HK$ per share	HK$ per share
Employees																
In aggregate – granted on 18 September 2007	1,344,000	–	576,000	–	–	768,000	768,000	1,536,000	1,536,000	–	–	–	18-09-07	18-09-10 to 17-09-14	1.415	0.708
In aggregate – granted on 20 May 2008	1,100,000	–	1,100,000	–	–	–	–	–	–	–	–	–	20-05-08	20-05-10 to 19-05-14	0.674	0.337
In aggregate – granted on 20 May 2008	4,272,000	–	1,312,000	–	–	2,960,000	2,960,000	5,920,000	4,032,000	–	–	1,888,000	20-05-08	20-05-11 to 19-05-15	0.674	0.337
In aggregate – granted on 20 May 2008	3,392,000	–	–	–	–	3,392,000	3,392,000	6,784,000	600,000	–	–	6,184,000	20-05-08	20-05-14 to 19-05-18	0.674	0.337
In aggregate – granted on 27 Feb 2009	696,000	–	560,000	–	136,000	–	–	–	–	–	–	–	27-02-09	27-02-10 to 26-02-14	0.397	0.199
In aggregate – granted on 30 Jun 2010	10,444,000	–	5,108,000	–	86,000	5,250,000	5,250,000	10,500,000	1,360,000	–	176,000	8,964,000	28-06-10	28-06-11 to 27-06-15	3.240	1.620
In aggregate – granted on 30 Jun 2010	12,096,000	–	3,496,000	–	288,000	8,312,000	8,312,000	16,624,000	1,984,000	–	640,000	14,000,000	28-06-10	28-06-12 to 27-06-16	3.240	1.620
In aggregate – granted on 30 Jun 2010	11,208,000	–	1,092,000	–	240,000	9,876,000	9,876,000	19,752,000	664,000	–	320,000	18,768,000	28-06-10	28-06-13 to 27-06-17	3.240	1.620
In aggregate – granted on 30 Jun 2010	7,500,000	–	–	–	–	7,500,000	7,500,000	15,000,000	–	–	–	15,000,000	28-06-10	28-06-14 to 27-06-18	3.240	1.620
In aggregate – granted on 12 July 2011	25,828,000	–	5,296,000	–	900,000	19,632,000	19,632,000	39,264,000	11,691,200	–	1,448,000	26,124,800	12-07-11	12-07-12 to 11-07-16	1.678	0.839
In aggregate – granted on 12 July 2011	288,000	–	–	–	–	288,000	288,000	576,000	144,000	–	–	432,000	12-07-11	12-07-14 to 11-07-18	1.678	0.839
In aggregate – granted on 27 Dec 2012	36,706,000	–	1,676,000	–	1,104,000	33,926,000	33,926,000	67,852,000	3,598,000	–	6,558,000	57,696,000	27-12-12	27-12-13 to 27-12-17	2.328	1.164
In aggregate – granted on 27 Dec 2012	2,976,000	–	–	–	–	2,976,000	2,976,000	5,952,000	–	–	–	5,952,000	27-12-12	27-12-15 to 27-12-19	2.328	1.164
In aggregate – granted on 10 Jan 2014	–	31,020,000	–	–	1,408,000	29,612,000	29,612,000	59,224,000	–	–	5,088,000	54,136,000	10-01-14	10-1-15 to 10-1-19	3.080	1.540
In aggregate – granted on 10 Jan 2014	–	1,000,000	–	–	–	1,000,000	1,000,000	2,000,000	–	–	–	2,000,000	10-01-14	10-1-17 to 10-1-21	3.080	1.540

REPORT OF THE DIRECTORS

Name or category of participant	At 1 January 2014	Grant before completion of the bonus issue	Exercised before completion of the bonus issue	Expired before completion of the bonus issue	Forfeited before completion of the bonus issue	Number of options At 13 June 2014: before completion of the bonus issue	Number of options At 13 June 2014: Adjust upon completion of the bonus issue	Number of options At 13 June 2014: After completion of the bonus issue	Exercised after completion of the bonus issue	Expired after completion of the bonus issue	Forfeited after completion of the bonus issue	At 31 December 2014	Date of grant of share options*	Exercise period of share options	Exercise price of share options before completion of the bonus issue** HK$ per share	Exercise price of share options after completion of the bonus issue** 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	0.337
In aggregate – granted on 27 Feb 2009	4,000,000	–	1,000,000	–	–	3,000,000	3,000,000	6,000,000	–	–	–	6,000,000	27-02-09	27-02-13 to 26-02-17	0.397	0.199
In aggregate – granted on 30 Jun 2010	4,000,000	–	–	–	–	4,000,000	4,000,000	8,000,000	–	–	–	8,000,000	28-06-10	28-06-14 to 27-06-18	3.240	1.620
In aggregate – granted on 12 July 2011	1,400,000	–	–	–	–	1,400,000	1,400,000	2,800,000	–	–	–	2,800,000	12-07-11	12-7-12 to 11-07-16	1.678	0.839
In aggregate – granted on 27 Dec 2012	2,000,000	–	–	–	–	2,000,000	2,000,000	4,000,000	–	–	–	4,000,000	27-12-12	27-12-15 to 27-12-19	2.328	1.164
Total	131,998,000	32,020,000	23,964,000	–	4,162,000	135,892,000	135,892,000	271,784,000	25,609,200	–	14,230,000	231,944,800				

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

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

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

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company, which currently comprises three 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 annual results for the year ended 31 December 2014.

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 and purchases by operating units in currencies other than the units' functional currencies, where the receivables and payables are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD and EUR which may affect the Group's performance and asset value. The Group has not entered into any derivative contracts to hedge against the risk in the year 2014.

EMPLOYEES AND REMUNERATION POLICY

During the year ended 31 December 2014, the Group's staff costs (including directors' remuneration) amounted to approximately HK$1,165.6 million (2013: HK$1,015.1 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. As of 31 December 2014, the Group had 6,208 employees (2013: 6,226 employees).

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2014.

REPORT OF THE DIRECTORS

MATERIAL ACQUISITIONS AND DISPOSAL

On 16 December 2014, the Company, Coolpad E-Commerce Inc. (the "Coolpad E-Commence"), a direct wholly-owned subsidiary of the Company, and Tech Time Development Limited (the "Investor"), a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of Qihoo 360, a leading internet company in Mainland China with its shares listed on the New York Stock Exchange, entered into a Subscription Agreement, pursuant to which, the Investor agreed to subscribe and Coolpad E-Commence agreed to allot and issue of 900 ordinary shares, representing 45% equity interest of Coolpad E-Commence to the Investor at a cash consideration of USD409.05 million (equivalent to appropriately HK$3,170 million) (the "Deemed Disposal"). Up to the date of this Annual Report, the Deemed Disposal transaction has not yet been completed. Details of the Deemed Disposal transaction are set out in the announcements of the Group dated 16 December 2014, 9 January 2015 and 16 February 2015, respectively.

Save as stated above, the Company and its subsidiaries had no other material acquisition and disposal transactions 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 2014. 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 45 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

23 March 2015, Hong Kong

INDEPENDENT AUDITORS' REPORT

EY 安永

To the shareholders of Coolpad Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Coolpad Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 140, which comprise the consolidated and company statements of financial position as at 31 December 2014 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
(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 2014, 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

23 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
REVENUE	5	**24,900,471**	19,623,652
Cost of sales		**(21,885,012)**	(17,093,633)
Gross profit		**3,015,459**	2,530,019
Other income and gains	5	**431,680**	382,373
Selling and distribution expenses		**(1,434,843)**	(1,301,713)
Administrative expenses		**(1,233,857)**	(984,340)
Other expenses		**(83,759)**	(165,501)
Finance costs	7	**(87,269)**	(23,134)
Share of profits and losses of:			
A joint venture		**(297)**	(471)
Associates		**(485)**	140
PROFIT BEFORE TAX	6	**606,629**	437,373
Income tax expense	10	**(92,551)**	(89,121)
PROFIT FOR THE YEAR		**514,078**	348,252
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(1,889)**	–
Exchange differences on translation of foreign operations		**(5,537)**	58,452
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(7,426)**	58,452
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on property revaluation		**28,368**	(17,804)
Income tax effect	33	**(4,729)**	6,486
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**23,639**	(11,318)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**16,213**	47,134
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**530,291**	395,386

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Profit or loss attributable to:			
Owners of the Company		**512,855**	348,547
Non-controlling interests		**1,223**	(295)
		514,078	348,252
Total comprehensive income attributable to:			
Owners of the Company	11	**526,648**	395,681
Non-controlling interests		**3,643**	(295)
		530,291	395,386
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic (2013 restated)		**HK11.94 cents**	HK8.29 cents
Diluted (2013 restated)		**HK11.69 cents**	HK8.12 cents

Details of the dividend for the years are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**906,006**	567,866
Investment properties	15	**113,029**	218,117
Prepaid land lease payments	16	**268,231**	153,491
Intangible assets	17	**113,486**	173,522
Investment in a joint venture	19	**4,891**	5,881
Investments in associates	20	**58,500**	53,843
Available-for-sale investments	21	**56,152**	28,884
Other non-current assets	26	**86,671**	38,844
Deferred tax assets	33	**18,620**	10,554
Total non-current assets		**1,625,586**	1,251,002
CURRENT ASSETS			
Inventories	22	**2,797,660**	2,594,764
Trade receivables	23	**3,019,063**	2,998,154
Bills receivable	24	**553,099**	211,551
Loans receivable	25	**290,768**	–
Prepayments, deposits and other receivables	26	**957,108**	678,640
Due from a director	27	**–**	53
Pledged deposits	28	**641,659**	699,304
Cash and cash equivalents	28	**2,959,143**	1,628,266
Total current assets		**11,218,500**	8,810,732
CURRENT LIABILITIES			
Trade payables	29	**2,117,840**	1,876,058
Bills payable	30	**2,179,404**	2,695,579
Other payables and accruals	31	**2,853,419**	1,987,932
Interest-bearing bank borrowings	32	**547,798**	603,011
Due to an associate	20	**3,830**	6,708
Tax payable		**77,470**	73,648
Total current liabilities		**7,779,761**	7,242,936
NET CURRENT ASSETS		**3,438,739**	1,567,796
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,064,325**	2,818,798

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,064,325**	2,818,798
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**1,615,624**	–
Deferred tax liabilities	33	**54,839**	48,263
Other non-current liabilities		**33,946**	9,641
Total non-current liabilities		**1,704,409**	57,904
Net assets		**3,359,916**	2,760,894
EQUITY			
Equity attributable to owners of the Company			
Issued capital	34	**42,950**	21,107
Shares held for the Share Award Plan	36	**–**	(240)
Reserves		**3,310,371**	2,737,075
		3,353,321	2,757,942
Non-controlling interests		**6,595**	2,952
Total equity		**3,359,916**	2,760,894

GUO Deying
Director

JIANG Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

		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	Asset 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		163	31,083	–	–	–
Equity-settled share option arrangements	*35*	–	–	–	–	–
Appropriation to statutory reserve	*37 (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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

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$'000	Total equity HK$'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 CHANGES IN EQUITY

Year ended 31 December 2014

		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	Asset revaluation reserve HK$'000
At 1 January 2014		21,107	375,136	(240)	390	81,755
Profit for the year		–	–	–	–	–
Other comprehensive income/(loss) for the year:						
Gain on property revaluation, net of tax		–	–	–	–	23,639
Change in fair value of available-for-sale investments, net of tax		–	–	–	–	–
Exchange differences on translation of foreign operations		–	–	–	–	–
Total comprehensive income/(loss) for the year		–	–	–	–	23,639
Issue of bonus shares		21,347	(21,347)	–	–	–
Interim 2014 dividend declared and paid		–	(42,914)	–	–	–
Issue of shares upon exercise of share options	34	496	103,957	–	–	–
Shares awarded under the Share Award Plan	36	–	–	240	–	–
Equity-settled share option arrangements	35	–	–	–	–	–
Appropriation to statutory reserve	37 (a)	–	–	–	–	–
At 31 December 2014		42,950	414,832*	–	390*	105,394*

* These reserve accounts comprise the consolidated reserves of HK$3,310,371,000 (2013: HK$2,737,075,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

of the Company									
Available-for-sales investment revaluation reserve HK$'000	Statutory reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
–	126,531	95,743	41,787	1,870	276,001	1,737,862	2,757,942	2,952	2,760,894
–	–	–	–	–	–	512,855	512,855	1,223	514,078
–	–	–	–	–	–	–	23,639	–	23,639
(1,889)	–	–	–	–	–	–	(1,889)	–	(1,889)
–	–	–	–	–	(7,957)	–	(7,957)	2,420	(5,537)
(1,889)	–	–	–	–	(7,957)	512,855	526,648	3,643	530,291
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(42,914)	–	(42,914)
–	–	(32,079)	–	–	–	–	72,374	–	72,374
–	–	–	1,777	–	–	–	2,017	–	2,017
–	–	37,254	–	–	–	–	37,254	–	37,254
–	33,492	–	–	–	–	(33,492)	–	–	–
(1,889)*	160,023*	100,918*	43,564*	1,870*	268,044*	2,217,225*	3,353,321	6,595	3,359,916

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**606,629**	437,373
Adjustments for:			
Bank interest income	*5*	**(94,164)**	(62,635)
Finance costs	*7*	**87,269**	23,134
Share of loss of a joint venture	*19*	**297**	471
Share of profits and losses of associates	*20*	**485**	(140)
Depreciation	*6*	**70,829**	53,450
Changes in fair value of investment properties	*6*	**(1,724)**	96,139
Loss on revaluation of property, plant and equipment	*6*	**–**	36,239
Amortisation of patents, licences and computer software	*6*	**38,538**	37,700
Amortisation of product development costs	*6*	**94,209**	80,512
Amortisation of prepaid land lease payments	*6*	**3,594**	3,042
Loss on disposal of a piece of land	*6*	**1,876**	–
(Gain)/loss on disposal of items of property, plant and equipment	*6*	**(152)**	2,408
(Reversal of impairment)/impairment of trade receivables	*6*	**(4,361)**	17,392
Impairment of other receivables	*6*	**–**	1,167
Write-down of inventories to net realisable value	*6*	**190,611**	117,658
Equity-settled share option expense	*6*	**37,254**	36,646
Equity-settled share award plan expense	*6*	**2,017**	–
		1,033,207	880,556
Increase in inventories		**(362,982)**	(897,204)
Increase in loans receivable		**(289,658)**	–
Decrease/(increase) in trade receivables		**27,224**	(832,464)
(Increase)/decrease in bills receivable		**(343,266)**	20,482
Increase in prepayments, deposits and other receivables		**(272,229)**	(32,509)
Decrease/(increase) in an amount due from a director		**53**	(53)
Decrease/(increase) in other non-current assets		**4,766**	(2,085)
Increase in trade payables		**221,726**	143,327
(Decrease)/increase in bills payable		**(557,491)**	628,247
Increase in other payables and accruals		**787,434**	828,003
Decrease in an amount due to an associate		**(3,004)**	(774)
Decrease in other non-current liabilities		**(8,083)**	(3,092)
Cash generated from operations		**237,697**	732,434
Tax paid		**(94,844)**	(85,602)
Net cash flows from operating activities		**142,853**	646,832

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Net cash flows from operating activities		**142,853**	646,832
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		**94,164**	62,635
Dividends received from an associate		**–**	268
Purchases of items of property, plant and equipment		**(249,417)**	(147,075)
Proceeds from disposal of items of property, plant and equipment		**1,979**	2,471
Additions to product development costs	*17*	**(68,769)**	(77,959)
Additions to patents and licences	*17*	**(4,749)**	(46,662)
Additions to computer software	*17*	**–**	(2,496)
Additions to prepaid land lease payments		**(106,721)**	(29,109)
Additional investment in an associate		**(5,304)**	–
Purchases of available-for-sale investments		**(34,108)**	(3,846)
Withdrawal of available-for-sale investments		**4,946**	–
Cash transferred to restricted bank deposits		**(2,591,033)**	(2,587,510)
Cash transferred from restricted bank deposits		**2,646,036**	2,594,333
Net cash flows used in investing activities		**(312,976)**	(234,950)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	*34(a)*	**72,374**	21,173
New bank loans		**8,270,306**	3,059,285
Repayment of bank loans		**(6,680,297)**	(3,003,029)
Interest paid		**(118,000)**	(22,663)
Dividends paid		**(42,914)**	(105,298)
Net cash flows generated from/(used in) financing activities		**1,501,469**	(50,532)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,331,346**	361,350
Cash and cash equivalents at beginning of year		**1,628,266**	1,273,540
Effect of foreign exchange rate changes, net		**(469)**	(6,624)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,959,143**	1,628,266
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*28*	**2,959,143**	1,628,266

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**52**	52
Investments in subsidiaries	18	**203,455**	168,009
Available-for-sale investment	21	**3,159**	–
Total non-current assets		**206,666**	168,061
CURRENT ASSETS			
Due from subsidiaries	18	**2,701,666**	531,276
Trade receivables	23	**–**	–
Prepayments, deposits and other receivables	26	**70**	1,266
Pledged deposits	28	**23,677**	–
Cash and cash equivalents	28	**210,870**	216,684
Total current assets		**2,936,283**	749,226
CURRENT LIABILITIES			
Due to subsidiaries	18	**725,194**	76,555
Other payables and accruals	31	**4,758**	9,022
Interest-bearing bank borrowings	32	**465,402**	232,638
Total current liabilities		**1,195,354**	318,215
NET CURRENT ASSETS		**1,740,929**	431,011
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,947,595**	599,072
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**1,324,068**	–
Total non-current liabilities		**1,324,068**	–
Net assets		**623,527**	599,072
EQUITY			
Issued capital	34	**42,950**	21,107
Shares held for the Share Award Plan		**–**	(240)
Reserves	37 (b)	**580,577**	578,205
Total equity		**623,527**	599,072

GUO Deying
Director

JIANG Chao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2014

1. CORPORATE INFORMATION

Coolpad Group 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.

The Company is an investment holding company. Particulars of the Company's principal subsidiaries and its joint venture and associates are set out in notes 18, 19 and 20 to the financial statements, respectively.

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, and accounting principles generally accepted in Hong Kong. These financial statements also comply with applicable disclosures requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continued to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in section 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment and certain available-for-sale investment, 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 2014. 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 Company 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 2014

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 revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010 – 2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010 – 2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010 – 2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011 – 2013 Cycle*	*Meaning of Effective HKFRSs*

1 Effective from 1 July 2014

Other than explained below regarding the impact of HKAS 32, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set-off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Details of the disclosures required by HKAS 32 Amendments are included in note 41 to the financial statements.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet adopted, in these financial statements.

HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 1	*Disclosure Initiative*[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: *Applying the Consolidation Exception*[2]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to numbers of HKFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to numbers of HKFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to numbers of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopted HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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 Non-current assets Held for Sale and Discontinued Operations 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENT IN ASSOCIATES AND A JOINT VENTURE (continued)

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.

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

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 other comprehensive income. 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 assets 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.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT

The Group measures its investment properties, certain buildings classified as property, plant and equipment and certain available-for-sale investment 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and certain buildings classified as property, plant and equipment), 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (continued)

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 2014

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 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 profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

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 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 ranging from three to 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 10 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 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 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 profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investment

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Available-for-sale financial investment (continued)

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 and other comprehensive income 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.

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

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 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 profit or loss.

Assets carried at cost

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

Available-for-sale financial investment

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Available-for-sale financial investment (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "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 profit or loss – is removed from other comprehensive income and recognised in 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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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) Service income is derived principally from the installation of mobile phone applications, which is recognised in the period in which 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 profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Termination benefits

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes restructuring costs involving the payment of termination benefits.

BORROWING COSTS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained profits 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 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 subsidiaries in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates prevailing at the end of the reporting period and their 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 profit or loss.

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

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Income tax

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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$359,872,000 (2013: HK$290,335,000) (note 33).

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 2014, the best estimate of the carrying amount of provision for product warranties was HK$95,654,000 (2013: HK$98,032,000) (note 31).

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 2014, the best estimate of the carrying amount of capitalised product development costs was HK$94,353,000 (2013: HK$120,294,000) (note 17).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 2014, the carrying amount of inventories was approximately HK$2,797,660,000 (2013: HK$2,594,764,000) after netting off the allowance for inventories of approximately HK$320,313,000 (2013: HK$187,646,000).

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 2014, the provision recognised for trade receivables was HK$6,850,000 (2013: HK$12,637,000) (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 2014 was HK$143,217,000 (2013: HK$108,136,000). Further details are set out in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has three reportable operating segments as follows:

(a) the mobile phone segment engages in the research, development, production and sale of mobile phones and related accessories and provision of wireless application service;

(b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation; and

(c) the finance service segment commences operating in year 2014 and engages in the provision of a range of financing services in Mainland China.

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 other than those used for finance service purpose 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 2014

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2014

	Mobile phone HK$'000	Property investment HK$'000	Finance service HK$'000	Total HK$'000
Segment revenue:				
Sales to external customers	24,896,444	–	4,027	24,900,471
Other revenue and gains	329,384	8,132	–	337,516
Total	25,225,828	8,132	4,027	25,237,987
Segment results	536,133	7,363	4,321	547,817
Reconciliation:				
Interest income				94,164
Share of loss of a joint venture				(297)
Share of loss of associates				(485)
Corporate and other unallocated expenses				52,699
Finance costs				(87,269)
Profit before tax				606,629
Segment assets	8,601,470	113,892	389,759	9,105,121
Reconciliation:				
Investment in a joint venture				4,891
Investments in associates				58,500
Corporate and other unallocated assets				3,675,574
Total assets				12,844,086
Segment liabilities	6,273,519	1,329	5,963	6,280,811
Reconciliation:				
Corporate and other unallocated liabilities				3,203,359
Total liabilities				9,484,170
Other segment information:				
Write-down of inventories to net realisable value	190,611	–	–	190,611
Fair value gain on investment properties	–	1,724	–	1,724
Product warranty provision	130,901	–	–	130,901
Depreciation and amortisation	207,168	–	2	207,170
Capital expenditure*	473,505	–	–	473,505

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

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 gains 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 2014

4. OPERATING SEGMENT INFORMATION (continued)

GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	2014	2013
	HK$'000	HK$'000
Mainland China	**23,341,725**	19,089,998
Overseas	**1,558,746**	533,654
	24,900,471	19,623,652

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

(b) *Non-current assets*

	2014	2013
	HK$'000	HK$'000
Mainland China	**1,542,041**	1,233,933
Overseas	**8,773**	6,515
	1,550,814	1,240,448

The non-current asset information above is based on the locations of the assets and excludes financial instruments and 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	**2014**	2013
		HK$'000	HK$'000
Customer A	Mobile phone	**6,774,221**	6,190,488
Customer B	Mobile phone	**4,431,316**	3,621,408
Customer C	Mobile phone	**3,238,508**	4,758,608

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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; service income received and receivable from wireless application service, and the finance service income from the provision of finance service.

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

	2014 HK$'000	2013 HK$'000
Revenue		
Sale of mobile phones and related accessories	**24,547,301**	19,517,460
Wireless application service income	**349,143**	106,192
Finance service income	**4,027**	–
	24,900,471	19,623,652
Other income		
Bank interest income	**94,164**	62,635
Government grants and subsidies*	**297,009**	218,489
Fair value gain on investment properties	**1,724**	–
Gross rental income	**6,408**	26,296
Others	**32,375**	19,093
	431,680	326,513
Gains		
Foreign exchange gains, net	**–**	55,860
	–	55,860
	431,680	382,373

* Government grants and subsidies represented refunds of VAT received from a tax bureau and grants received from certain finance bureaus 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

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6. PROFIT BEFORE TAX

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

	Notes	2014 HK$'000	2013 HK$'000
Cost of inventories sold		**21,694,401**	17,071,196
Depreciation	*14*	**70,829**	53,450
Amortisation of patents and licences and computer software*	*17*	**38,538**	37,700
Amortisation of prepaid land lease payments	*16*	**3,594**	3,042
Research and development costs*:			
Product development costs amortised	*17*	**94,209**	80,512
Current year expenditure		**631,066**	617,639
		725,275	698,151
Operating lease rental		**40,985**	32,747
Auditors' remuneration		**3,536**	3,317
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**967,414**	826,482
Staff welfare expenses		**72,074**	56,504
Pension scheme contributions (defined contribution scheme)		**86,841**	95,483
Equity-settled share option expense	*35*	**37,254**	36,646
Equity-settled share award plan expense	*36*	**2,017**	–
		1,165,600	1,015,115
Change in fair value of investment properties#	*15*	**(1,724)**	96,139
Loss on revaluation of property, plant and equipment#	*14*	**–**	36,239
Loss on disposal of a piece of land#		**1,876**	–
(Reversal of impairment)/impairment of trade receivables#	*23*	**(4,361)**	17,392
Impairment of other receivables#		**–**	1,167
Write-down of inventories to net realisable value&		**190,611**	117,658
Direct operating expenses arising on rental-earning investment properties		**769**	3,094
Product warranty provision	*31*	**130,901**	206,714
(Gain)/loss on disposal of items of property, plant and equipment#		**(152)**	2,408
Foreign exchange differences, net#		**70,723**	(55,860)

* Included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income

\# Included in "Other income and gains" or "Other expenses" in the consolidated statement of profit or loss and other comprehensive income

& Included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income

NOTES TO FINANCIAL STATEMENTS

31 December 2014

7. FINANCE COSTS

	Group	
	2014	2013
	HK$'000	HK$'000
Interest on:		
Bank loans	**84,503**	20,449
Discounted bills receivable	**2,766**	2,685
	87,269	23,134

There were no capitalised interest expenses during the year (2013: Nil)

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 "Listing Rules") and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Fees	**416**	541
Other emoluments:		
Salaries, allowances and benefits in kind	**12,881**	13,860
Performance related bonuses	**3,064**	649
Equity-settled share option expense	**1,808**	2,157
Equity-settled share award plan expense	**2,017**	–
Pension scheme contributions	**108**	108
	19,878	16,774
	20,294	17,315

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

8. DIRECTORS' REMUNERATION (continued)

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Fees	Equity-settled share option expense	Total remuneration
	HK$'000	HK$'000	HK$'000
2014			
Dr. HUANG Dazhan	**120**	**–**	**120**
Mr. XIE Weixin	**151**	**–**	**151**
Mr. CHAN King Chung	**120**	**–**	**120**
Mr. YANG Xianzu*	**25**	**–**	**25**
	416	**–**	**416**
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

* Resigned on 17 February 2014

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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$'000	Equity-settled share award plan expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2014						
Executive directors:						
Mr. GUO Deying	**5,304**	**1,365**	**–**	**–**	**27**	**6,696**
Mr. JIANG Chao	**3,031**	**662**	**–**	**2,017**	**27**	**5,737**
Mr. LI Wang	**2,273**	**429**	**591**	**–**	**27**	**3,320**
Mr. LI Bin	**2,273**	**608**	**1,217**	**–**	**27**	**4,125**
	12,881	**3,064**	**1,808**	**2,017**	**108**	**19,878**

	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	6,342	–	–	27	6,369
Mr. JIANG Chao	3,007	–	–	27	3,034
Mr. LI Wang	2,255	104	772	27	3,158
Mr. LI Bin	2,256	545	1,383	27	4,211
	13,860	649	2,155	108	16,772

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2013: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2013: One) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,137**	753
Performance related bonuses	**–**	829
Equity-settled share option expense	**1,399**	1,807
Pension scheme contributions	**27**	5
	2,563	3,394

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 (2013: 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.

	2014	2013
	HK$'000	HK$'000
Group:		
Current – Mainland China		
Charge for the year	**94,605**	97,973
Underprovision in prior years	**4,061**	5,921
Deferred *(note 33)*	**(6,115)**	(14,773)
Total tax charge for the year	**92,551**	89,121

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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	
	2014	2013
	HK$'000	HK$'000
Profit before tax	**606,629**	437,373
Tax at the statutory tax rate	**151,657**	109,343
Effect of tax concessions for certain subsidiaries	**(170,686)**	(136,700)
Adjustments in respect of current tax of previous periods	**4,061**	5,921
Results attributable to associates and a joint venture	**73**	(21)
Expenses not deductible for tax	**48,902**	35,966
Additional deduction of research and development expenses	**(37,294)**	(23,230)
Temporary differences not recognised	**84,317**	92,367
Tax losses not recognised	**11,521**	5,475
Tax charge at the Group's effective rate	**92,551**	89,121
The Group's effective income tax rate	**15.3%**	20.4%

The share of tax attributable to associates and a joint venture, amounting to HK$47,000 (2013: HK$62,000), 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 those entities 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 2013 and was subject to CIT at a reduced rate of 10% for each of the two years ended 31 December 2013 and 2014. Shenzhen Coolpad will submit the application for the extension of the title of key software developer to enjoy the tax rate of 10% in the future.

(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 is subject to CIT at a rate of 15% (2013: 15%) for the year ended 31 December 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

10. INCOME TAX EXPENSE (continued)

(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 therefore was exempted from CIT for each of the two years ended 31 December 2010 and 2011 and was entitled to a 50% reduction in the applicable tax rate for CIT for the three years ended 31 December 2014. In this regard, Xi'an Coolpad is subject to CIT at a rate of 12.5% (2013: 12.5%) for the year ended 31 December 2014.

(d) Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies"), the Company's wholly-owned subsidiary, has been recognised as a software enterprise and therefore was exempted from CIT for each of the two years ended 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 is exempted from CIT for the year ended 31 December 2014.

(e) Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad"), the Company's wholly-owned subsidiary, was newly established during the year and has been assessed as a software enterprise and therefore is exempted from CIT for the first two years starting from when Nanjing Coolpad is profitable and will be entitled to a 50% reduction in the applicable tax rate for CIT in the three years that follow. Nanjing Coolpad was in tax loss position for the year ended 31 December 2014, as such, the tax concession period of Nanjing Coolpad has not yet commenced.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2014 includes a loss of HK$42,387,000 (2013: a loss of HK$10,870,000) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDEND

	2014 **HK$'000**	2013 HK$'000
Interim – HK1 cent (2013: HK2 cents) per ordinary share	**42,914**	42,125

The directors did not recommend the payment of final dividend for the years ended 31 December 2014 and 2013.

Taking into account the issue of the bonus shares on the basis of one bonus share for every one ordinary share held on 3 June 2014, the Directors consider that the interim dividend amount paid in 2014 was comparable with that in 2013.

NOTES TO FINANCIAL STATEMENTS

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

The calculation of the 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 4,294,033,251 (2013: 4,205,133,610 (restated)) in issue during the year, as adjusted to reflect the bonus share issue during the year.

The calculation of the 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 includes 2,134,709,000 bonus shares issued on 13 June 2014 (note 34), 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:

	2014 **HK$'000**	2013 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**512,855**	348,547

	Number of shares	
	2014	2013 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year	**4,294,824,922**	4,207,541,610
Weighted average number of shares held for the Share Award Plan	**(791,671)**	(2,408,000)
Adjusted weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**4,294,033,251**	4,205,133,610
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**93,219,191**	86,941,038
	4,387,252,442	4,292,074,648

NOTES TO FINANCIAL STATEMENTS

31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2014							
Cost or valuation:							
At 1 January 2014		389,143	18,339	165,382	24,423	122,482	719,769
Additions		–	–	86,172	14	191,159	277,345
Transfer from investment properties	15	105,683	–	–	–	–	105,683
Surplus on revaluation		28,368	–	–	–	–	28,368
Disposals		–	(285)	(11,550)	–	–	(11,835)
Transfers		100,476	4,498	19,988	1,380	(126,342)	–
Exchange realignment		(403)	(45)	(189)	(75)	(161)	(873)
At 31 December 2014		623,267	22,507	259,803	25,742	187,138	1,118,457
Accumulated depreciation:							
At 1 January 2014		44,462	10,381	88,569	8,491	–	151,903
Depreciation provided during the year		25,711	4,760	36,528	3,830	–	70,829
Disposals		–	(285)	(9,723)	–	–	(10,008)
Exchange realignment		(50)	(18)	(193)	(12)	–	(273)
At 31 December 2014		70,123	14,838	115,181	12,309	–	212,451
Net book value:							
At 31 December 2014		553,144	7,669	144,622	13,433	187,138	906,006
Analysis of cost or valuation:							
At cost		4,534	22,507	259,803	25,742	187,138	499,724
At valuation		618,733	–	–	–	–	618,733
		623,267	22,507	259,803	25,742	187,138	1,118,457

At 31 December 2014, the Group had yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$57,225,000 (2013: HK$56,324,000).

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31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Except for the purchased dormitory of the Group which has been carried at historical cost less accumulated depreciation, 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$550,383,000 (2013: HK$341,741,000) as at 31 December 2014 based on their existing use. Revaluation surplus of HK$28,368,000, resulting from the above valuations, has been credited to other comprehensive income.

At 31 December 2014, certain of the Group's buildings with a net carrying amount of approximately HK$222,355,000 (2013: Nil) were pledged to secure general banking facilities granted to the Group (note 32).

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	162,582	24,423	122,482	332,377
At valuation	384,592	–	–	–	–	384,592
	389,143	18,339	162,582	24,423	122,482	716,969

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

* 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, were 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 profit or loss for the year ended 31 December 2013 (note 6).

Company

	Motor vehicles
	HK$'000
31 December 2014	
Cost:	
At 1 January 2014 and 31 December 2014	**518**
Accumulated depreciation:	
At 1 January 2014	**466**
Depreciation provided during the year	**–**
At 31 December 2014	**466**
Net book value:	
At 31 December 2014	**52**
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

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

FAIR VALUE HIERARCHY

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

	Fair value measurement at 31 December 2014 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	**–**	**–**	**550,383**	**550,383**

	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:

		Buildings	
	Note	**2014 HK$'000**	2013 HK$'000
Carrying amount at 1 January		**341,741**	408,082
Addition during the year		**100,476**	–
Transfer from investment properties	*15*	**105,683**	–
Depreciation provided during the year		**(25,543)**	(21,122)
Deficit on revaluation recognised in other expenses in profit or loss		**–**	(36,239)
Surplus/(deficit) on revaluation recognised in other comprehensive income		**28,368**	(17,804)
Exchange realignment		**(342)**	8,824
Carrying amount at 31 December		**550,383**	341,741

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31 December 2014

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 2014	Range weighted average 2013
Industrial properties	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.)	**a. 983 to 5,794**	a. 955 to 5,077
		b. Administrative expense rate	**b. 3%**	b. 3%
		c. Unpredictable expense rate	**c. 3%**	c. 3%
		d. Rate of newness	**d. 88% to 100%**	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	**2014 HK$'000**	2013 HK$'000
Carrying amount at 1 January		**218,117**	309,690
Net gain/(loss) from a fair value adjustment*	6	**1,724**	(96,139)
Transfer to owner-occupied property	14	**(105,683)**	–
Exchange realignment		**(1,129)**	4,566
Carrying amount at 31 December		**113,029**	218,117

* 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 2013.

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15. INVESTMENT PROPERTIES (continued)

The Group's investment properties consist of certain commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2014 based on valuations performed by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$113,029,000. Each year, the Group's property manager and the chief financial officer decide, after obtaining the approval of the audit committee, on the appointment of an external valuer for the 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.

FAIR VALUE HIERARCHY

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

	Fair value measurement at 31 December 2014 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	**–**	**–**	**113,029**	**113,029**

	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 (2013: Nil).

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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	Total HK$'000
Carrying amount at 1 January 2013	99,515	210,175	309,690
Net gain/(loss) from a fair value adjustment recognised in profit or loss	10,156	(106,295)	(96,139)
Exchange realignment	2,001	2,565	4,566
Carrying amount at 31 December 2013 and 1 January 2014	**111,672**	**106,445**	**218,117**
Net gain from a fair value adjustment recognised in profit or loss	**1,724**	**–**	**1,724**
Transfer to owner-occupied property *(note 14)*	**–**	**(105,683)**	**(105,683)**
Exchange realignment	**(367)**	**(762)**	**(1,129)**
Carrying amount at 31 December 2014	**113,029**	**–**	**113,029**

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 2014	Range weighted average 2013
Commercial properties	Direct comparison approach	a. Market monthly rental (RMB/sq.m.)	**a. 136**	a. 113 to 132
		b. Discounted rate	**b. 5.0% to 5.5%**	b. 5.5% to 6%
		c. Market unit sale rate (RMB/sq.m.)	**c. 25,000 to 28,000**	c. 27,000 to 28,000
Industrial properties	DRC approach	a. Construction cost (RMB/sq.m.)	**n.a**	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.

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15. INVESTMENT PROPERTIES (continued)

FAIR VALUE HIERARCHY (continued)

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	
	2014	2013
	HK$'000	HK$'000
Carrying amount at 1 January	**157,116**	128,215
Additions	**122,642**	29,109
Recognised during the year *(note 6)*	**(3,594)**	(3,042)
Disposal	**(1,876)**	–
Exchange realignment	**(77)**	2,834
Carrying amount at 31 December	**274,211**	157,116
Current portion included in prepayments, deposits and other receivables *(note 26)*	**(5,980)**	(3,625)
Non-current portion	**268,231**	153,491

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

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17. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2014				
Cost:				
At 1 January 2014	**345,364**	**128,545**	**13,569**	**487,478**
Additions	**68,769**	**4,749**	**–**	**73,518**
Disposal	**(20,459)**	**–**	**–**	**(20,459)**
Exchange realignment	**(772)**	**(412)**	**(45)**	**(1,229)**
At 31 December 2014	**392,902**	**132,882**	**13,524**	**539,308**
Accumulated amortisation:				
At 1 January 2014	**225,070**	**87,670**	**1,216**	**313,956**
Provided during the year	**94,209**	**37,191**	**1,347**	**132,747**
Disposal	**(20,459)**	**–**	**–**	**(20,459)**
Exchange realignment	**(271)**	**(152)**	**1**	**(422)**
At 31 December 2014	**298,549**	**124,709**	**2,564**	**425,822**
Net carrying amount:				
At 31 December 2014	**94,353**	**8,173**	**10,960**	**113,486**
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

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18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014 **HK$'000**	2013 HK$'000
Unlisted shares, at cost	**44,991**	44,991
Capital contribution in respect of employee share-based compensation#	**158,464**	123,018
	203,455	168,009

\# The amount represents share-based compensation expenses arising from the granting of the Company's share options and awarding of the Company's shares granted 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 registration and business	Issued/fully paid-up capital	Percentage of equity attributable to the Company Direct	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. ("Yulong Shenzhen")*	PRC/ Mainland China	RMB403,000,000	–	100	Sale of mobile phones
Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad")*	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 2014

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows (continued):

Company	Place of registration and business	Issued/fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad")**	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. ("SZ Coolpad Technologies")**	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	USD1,000,000	–	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	RMB200,000,000	–	100	Production of mobile phones
Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad")**	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets
Shenzhen Huiying Finance Co., Ltd. ("Huiying")	PRC/ Mainland China	RMB300,000,000	–	100	Provision of micro-credit financing service

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31 December 2014

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows (continued):

Company	Place of registration and business	Issued/fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Coolpad Mobile Tech Co., Ltd.	PRC/ Mainland China	RMB300,000,000	–	60	Sale of mobile phones
Coolpad E-commerce Inc.	Cayman Islands	USD11	100	–	Investment holding
Coolpad E-commerce Limited	Hong Kong	USD100,000	–	100	Investment holding
Coolpad Telecommunication Scientific (Zhengzhou) Co.,Ltd.("Coolpad Telecommunication Zhengzhou")*	PRC/ Mainland China	–	–	100	Provision of product design and software development, manufacture and sale of mobile phones
Zhengzhou Coolpad Software Tech Co., Ltd. ("Zhengzhou Coolpad Software")**	PRC/ Mainland China	–	–	100	Provision of product design and software development for mobile handsets
Zhengzhou Yulong Investment Management Co., Ltd.	PRC/ Mainland China	–	–	60	Investment holding and property development
Nanjing Yulong Investment Management Co., Ltd.	PRC/ Mainland China	–	–	60	Investment holding and property development
Zhengzhou Coolpad Properties Co., Ltd.	PRC/ Mainland China	–	–	60	Property development
Dongguan Coolpad Software Tech Co., Ltd. ("Dongguan Coolpad Software")**	PRC/ Mainland China	–	–	100	Provision of product design and software development for mobile handsets

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

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

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19. INVESTMENT IN A JOINT VENTURE

	Group 2014 HK$'000	Group 2013 HK$'000
Share of net assets	**4,891**	5,881

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.

Taiwan Coolpad Technology Limited was in progress of liquidation as at 31 December 2014.

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 2014 HK$'000	Group 2013 HK$'000
Share of a joint venture's loss and total comprehensive loss for the year	**(297)**	(471)
Carrying amount of the Group's investment in a joint venture	**4,891**	5,881

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20. INVESTMENTS IN ASSOCIATES

	Group	
	2014	2013
	HK$'000	HK$'000
Share of net assets	**58,500**	53,843

The Group's trade payable balance with an associate is disclosed in note 40(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	
	2014	2013
	HK$'000	HK$'000
Share of associates' (loss)/profit and total comprehensive (loss)/income for the year	**(485)**	140
Aggregate carrying amount of the Group's investments in associates	**58,500**	53,843

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21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments, at fair value:				
Hong Kong	**3,159**	–	**3,159**	–
Unlisted equity investments, at cost	**52,993**	28,884	**52,993**	28,884
	56,152	28,884	**56,152**	28,884

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$1,889,000 (2013: Nil).

The above equity investments are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2014, certain unlisted equity investments with a carrying amount of HK$52,993,000 (2013: HK$28,884,000) 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. The above unlisted equity investments are the equity interest of private entities established in the PRC.

22. INVENTORIES

	Group	
	2014	2013
	HK$'000	HK$'000
Raw materials	**1,334,632**	1,006,737
Work in progress	**352,148**	274,780
Finished goods	**1,110,880**	1,313,247
	2,797,660	2,594,764

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23. TRADE RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**3,025,913**	3,010,791	**4,072**	4,070
Impairment	**(6,850)**	(12,637)	**(4,072)**	(4,070)
	3,019,063	2,998,154	**–**	–

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, extending up to 120 days for some overseas customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**2,948,505**	2,968,544	**–**	–
4 to 6 months	**63,764**	24,868	**–**	–
7 to 12 months	**3,188**	5,337	**–**	–
Over 1 year	**10,456**	12,042	**4,072**	4,070
	3,025,913	3,010,791	**4,072**	4,070
Less: Impairment	**(6,850)**	(12,637)	**(4,072)**	(4,070)
	3,019,063	2,998,154	**–**	–

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31 December 2014

23. TRADE RECEIVABLES (continued)

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

	Group	
	2014	2013
	HK$'000	HK$'000
At 1 January	**12,637**	3,866
Impairment losses (reversed)/recognised *(note 6)*	**(4,361)**	17,392
Amount written off as uncollectible	**(1,411)**	(8,697)
Exchange realignment	**(15)**	76
	6,850	12,637

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$6,850,000 (2013: HK$12,637,000) with a carrying amount before provision of HK$49,107,000 (2013: HK$39,569,000).

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**2,910,896**	2,947,846	**–**	–
Less than 3 months past due	**58,848**	6,032	**–**	–
More than 3 months past due	**7,062**	17,344	**–**	–
	2,976,806	2,971,222	**–**	–

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.

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24. BILLS RECEIVABLE

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

	Group	
	2014	2013
	HK$'000	HK$'000
Within 3 months	**553,099**	211,551

Bills receivable are non-interest-bearing.

At 31 December 2014 and 2013, the Group did not have any past due or impaired bills receivable.

TRANSFERRED FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2014, 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 RMB545,838,000 (equivalent to HK$691,924,000). 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 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 is 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 2014, the Group had 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.

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25. LOANS RECEIVABLE

	Group 2014 HK$'000
Loans receivable	**290,768**

Huiying, a wholly-owned subsidiary of the Group was established during the year to provide the finance service. Those loans receivable bear interest at rates ranging from 8% to 12% per annum (2013: Nil). The grants of these loans were approved and monitored by the Group's management.

Except for loans receivable with an aggregate carrying amount of HK$283,809,000 as at 31 December 2014, which were secured by the pledge of collateral and guarantees by certain independent third parties, other loans receivable as at 31 December 2014 were unsecured.

An aging analysis of loans receivable, determined based on the age of the loans receivable since the effective drawn down date of the loans, as at the end of the reporting period is as follows:

	Group 2014 HK$'000
Within 3 months	**273,163**
4 to 6 months	**17,605**
	290,768

All of the loans receivable are neither past due nor impaired. These loans were related to a number of diversified borrowers for whom there was no recent history of default.

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**100,512**	25,529	**17**	1,213
Deposits and other receivables	**912,488**	662,151	**53**	53
Prepaid expenses	**3,593**	2,162	**–**	–
Current portion of prepaid land lease payments *(note 16)*	**5,980**	3,625	**–**	–
Deposits for the purchase of property, plant and equipment	**21,206**	24,017	**–**	–
	1,043,779	717,484	**70**	1,266
Non-current portion	**(86,671)**	(38,844)	**–**	–
	957,108	678,640	**70**	1,266

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.

27. DUE FROM A DIRECTOR

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

	Group	
	2014	2013
Name	**HK$'000**	HK$'000
Mr. Jiang Chao	**–**	53

The amount due from a director mainly represented advances to the director for business trips which was repaid during the year 2014.

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28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**2,959,143**	1,628,266	**210,870**	216,684
Time deposits	**641,659**	699,304	**23,677**	–
	3,600,802	2,327,570	**234,547**	216,684
Less: Pledged deposits:				
Pledged for bills payable *(note 30)*	**(470,523)**	(597,430)	**–**	–
Pledged for long-term loans *(note 32(a))*	**(23,677)**	–	**(23,677)**	–
Pledged for issuance of letters of credit	**(103,743)**	(70,682)	**–**	–
Pledged for provided a performance guarantee by banks	**(43,716)**	(31,192)	**–**	–
	(641,659)	(699,304)	**(23,677)**	–
Cash and cash equivalents	**2,959,143**	1,628,266	**210,870**	216,684

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$2,487,195,300 (2013: HK$1,394,818,300) and HK$18,678,000 (2013: HK$59,839,000), 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.

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.

29. TRADE PAYABLES

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

	Group	
	2014 **HK$'000**	2013 HK$'000
Within 3 months	**1,728,540**	1,656,893
4 to 6 months	**317,403**	114,574
7 to 12 months	**9,096**	61,376
Over 1 year	**62,801**	43,215
	2,117,840	1,876,058

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

30. BILLS PAYABLE

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

	Group	
	2014 **HK$'000**	2013 HK$'000
Within 3 months	**2,179,404**	2,695,579

At 31 December 2014, the Group's bills payable were secured by time deposits of HK$470,523,000 (2013: HK$597,430,000) (note 28).

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31. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2014	2013	**2014**	2013
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accrued royalties		**497,486**	298,273	**–**	–
Advances from customers		**1,025,602**	586,419	**25**	2,605
Product warranty provision	*(a)*	**95,654**	98,032	**–**	–
Accrued sales incentives		**718,787**	632,672	**–**	–
Other accruals		**29,085**	9,470	**–**	–
Other payables		**486,805**	363,066	**4,733**	6,417
		2,853,419	1,987,932	**4,758**	9,022

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	
		2014	2013
	Note	**HK$'000**	HK$'000
At 1 January		**98,032**	59,573
Additional provision	*6*	**130,901**	206,714
Amounts utilised during the year		**(132,944)**	(170,161)
Exchange realignment		**(335)**	1,906
At 31 December		**95,654**	98,032

The Group provides a one-year warranty on its products sold to customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised, where appropriate.

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32. INTEREST-BEARING BANK BORROWINGS

Group	2014 Effective interest rate (%)	2014 Maturity	2014 HK$'000	2013 Effective interest rate (%)	2013 Maturity	2013 HK$'000
Current						
Bank loans – secured	**6.46**	**2015**	**82,396**	–	–	–
Bank loans – unsecured	**–**	**–**	**–**	2.12-2.19	2014	21,416
Bank loans – import and trust receipt loans	**0.73-0.83**	**2015**	**465,402**	0.84-0.89	2014	581,595
			547,798			603,011
Non-current						
Bank loans – secured	**3.47-6.46**	**2016-2017**	**1,615,624**			–
			1,615,624			–
			2,163,422			603,011
Analysed into bank loans repayable:						
Within one year or on demand			**547,798**			603,011
In the second year			**126,764**			–
In the third to fifth years, inclusive			**1,488,860**			–
			2,163,422			603,011

Company	2014 Effective interest rate (%)	2014 Maturity	2014 HK$'000	2013 Effective interest rate (%)	2013 Maturity	2013 HK$'000
Current						
Bank loans – import and trust receipt loans	**0.88-0.96**	**2015**	**465,402**	0.84	2014	232,638
Non-current						
Bank loans – secured	**3.47-3.48**	**2017**	**1,324,068**	–	–	–
			1,789,470			232,638

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32. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

(a) At 31 December 2014, out of the Group's total bank borrowings, a borrowing amounting to HK$1,324,068,000 (2013: Nil) included in the non-current liability, was secured by the pledge of entire equity shares of Digital Tech Inc., Yulong Infotech Inc. and Coolpad Technologies Inc., wholly-owned subsidiaries of the Group, and the pledge of the Group's time deposits amounting to approximately HK$23,677,000 (note 28).

At 31 December 2014, certain of the Group's bank borrowings with an aggregate amount of HK$373,952,000 were also secured by the pledge of the Group's buildings situated in Mainland China, with an aggregate carrying value at 31 December 2014 of approximately HK$222,355,000 (note 14).

(b) At the end of the reporting period, the Group's bank borrowings of HK$839,354,000 (2013: HK$581,595,000) and HK$1,324,068,000 (2013: HK$21,416,000) bore interest at fixed rates and floating rates, respectively.

(c) At the end of the reporting period, the Group's bank borrowings of HK$373,952,000 (2013: Nil) and HK$1,789,470,000 (2013: HK$581,595,000) were denominated in RMB and United States dollars ("USD"), respectively. As at 31 December 2013, the Group had bank borrowings of HK$21,416,000 which were denominated in European dollars.

33. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

Group	Revaluation of buildings HK$'000	Withholding taxes HK$'000	Unrealised profit HK$'000	Total HK$'000
At 1 January 2013	53,945	8,209	–	62,154
Credited to equity during the year	(6,486)	–	–	(6,486)
Charged/(credited) to profit or loss for the year	(9,683)	–	1,326	(8,357)
Exchange differences	952	–	–	952
At 31 December 2013 and 1 January 2014	**38,728**	**8,209**	**1,326**	**48,263**
Charged to equity during the year	**4,729**	**–**	**–**	**4,729**
Charged to profit or loss for the year	**516**	**–**	**1,440**	**1,956**
Exchange differences	**(109)**	**–**	**–**	**(109)**
At 31 December 2014	**43,864**	**8,209**	**2,766**	**54,839**

33. DEFERRED TAX (continued)

DEFERRED TAX ASSETS

Group	Amortisation allowance in excess of related amortisation	Total
	HK$'000	HK$'000
At 1 January 2013	3,946	3,946
Credited to profit or loss for the year	6,416	6,416
Exchange differences	192	192
At 31 December 2013 and 1 January 2014	**10,554**	**10,554**
Credited to profit or loss for the year	**8,071**	**8,071**
Exchange differences	**(5)**	**(5)**
At 31 December 2014	**18,620**	**18,620**

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 2014, the Group has not recognised deferred tax liabilities of HK$359,872,000 (2013: HK$290,335,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$3,598,723,000 (2013: HK$2,903,350,000), 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.

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33. DEFERRED TAX (continued)

DEFERRED TAX ASSETS NOT RECOGNISED

Deferred tax assets have not been recognised in respect of the following items:

	2014 HK$'000	2013 HK$'000
Tax losses	143,217	108,136
Deductible temporary differences	1,725,474	1,173,693
	1,868,691	1,281,829

The Group had total accumulated tax losses arising in Mainland China and Hong Kong of HK$143,217,000 (2013: HK$108,136,000) for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that sufficient taxable profits will be available against which the above items can be utilised.

34. SHARE CAPITAL

	2014 HK$'000	2013 HK$'000
Authorised:		
20,000,000,000 (2013: 20,000,000,000) ordinary shares of HK$0.01 each	200,000	200,000
Issued and fully paid:		
4,295,027,200 (2013: 2,110,745,000) ordinary shares of HK$0.01 each	42,950	21,107

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34. 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 2013		2,094,443,000	20,944	386,515	407,459
Issue of shares upon exercise of share options		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 and 1 January 2014		**2,110,745,000**	**21,107**	**375,136**	**396,243**
Issue of bonus shares	*(a)*	**2,134,709,000**	**21,347**	**(21,347)**	**–**
Issue of shares upon exercise of share options	*(b)*	**49,573,200**	**496**	**103,957**	**104,453**
Interim 2014 dividend declared and paid		**–**	**–**	**(42,914)**	**(42,914)**
At 31 December 2014		**4,295,027,200**	**42,950**	**414,832**	**457,782**

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

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34. SHARE CAPITAL (continued)

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

(a) 2,134,709,000 bonus shares were granted for the ordinary shares held by the then existing shareholders on the basis of one bonus share for one ordinary share in issue on 3 June 2014, which were approved by the shareholders at the annual general meeting of the Company held on 23 May 2014.

(b) The movement in share capital due to share option exercised:

	Numbers of the shares issued due to the share option exercised (par value per share of HK$0.01)	Exercised price	Total cash consideration (before expense)
		HK$	HK$'000
	576,000	1.415	815
	5,160,000	0.674	3,478
	1,560,000	0.397	619
	9,696,000	3.240	31,415
	5,296,000	1.678	8,886
	1,676,000	2.328	3,902
	1,536,000	0.708	1,087
	4,632,000	0.337	1,561
	4,008,000	1.620	6,493
	11,835,200	0.839	9,930
	3,598,000	1.164	4,188
Total	49,573,200		72,374

35. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's non-executive directors, including independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Company's first share option scheme with a valid period of 10 years became effective on 21 November 2004 and was terminated on 23 May 2014 since this scheme would be due to expire on 21 November 2014. A new share option scheme was adopted by the Company and became effective on 23 May 2014 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.

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35. SHARE OPTION SCHEME (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

	2014		2013	
	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	**2.2829**	**131,998**	2.1946	162,614
Granted during the year	**3.0800**	**32,020**	–	–
Adjusted during the year	**–**	**135,892**	–	–
Exercised during the year	**1.4599**	**(49,573)**	1.2988	(16,302)
Forfeited during the year	**1.5759**	**(18,392)**	2.3104	(14,314)
At 31 December	**1.2874**	**231,945**	2.2829	131,998

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.006 per share (2013: HK$3.081 per share).

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35. SHARE OPTION SCHEME (continued)

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

2014

Number of options '000	Exercise price* HK$ per share	Exercise period
1,888	0.337	20-05-11 to 19-05-15
6,184	0.337	20-05-11 to 19-05-15
8,964	1.620	28-06-11 to 27-06-15
14,000	1.620	28-06-12 to 27-06-16
18,768	1.620	28-06-13 to 27-06-17
23,000	1.620	28-06-14 to 27-06-18
28,925	0.839	12-07-12 to 11-07-16
432	0.839	12-07-14 to 11-07-18
2,637	1.164	27-12-13 to 27-12-17
18,353	1.164	27-12-14 to 27-12-17
22,353	1.164	27-12-15 to 27-12-17
18,353	1.164	27-12-16 to 27-12-17
1,488	1.164	27-12-15 to 27-12-19
1,488	1.164	27-12-16 to 27-12-19
1,488	1.164	27-12-17 to 27-12-19
1,488	1.164	27-12-18 to 27-12-19
7,606	1.540	10-1-15 to 10-1-19
15,510	1.540	10-1-16 to 10-1-19
15,510	1.540	10-1-17 to 10-1-19
15,510	1.540	10-1-18 to 10-1-19
500	1.540	10-1-17 to 10-1-21
500	1.540	10-1-18 to 10-1-21
500	1.540	10-1-19 to 10-1-21
500	1.540	10-1-20 to 10-1-21
6,000	0.199	27-02-13 to 26-02-17
231,945		

35. SHARE OPTION SCHEME (continued)

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	3.240	28-06-11 to 27-06-15
12,096	3.240	28-06-12 to 27-06-16
11,208	3.240	28-06-13 to 27-06-17
11,500	3.240	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		

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

The fair value of equity-settled share options granted during the year was estimated as at the date of grant by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer, at HK$50,510,000 (2013: Nil) using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Batch	1	2
Stock asset price (HK$ per share)	3.08	3.08
Option strike price (HK$ per share)	3.08	3.08
Expected option period (Years)	5	7
Dividend yield (%)	0.65	0.65
Annualised volatility (%)	64	74
Risk-free interest rate (%)	1.49	1.96

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

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

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35. SHARE OPTION SCHEME (continued)

The Group recognised a share option expense of HK$37,254,000 (2013: HK$36,646,000) during the year ended 31 December 2014 (note 6).

The 49,573,200 share options exercised during the year resulted in the issue of 49,573,200 ordinary shares of the Company and new share capital of HK$496,000 and share premium of HK$103,957,000 (before issue expenses), as further detailed in note 34 to the financial statements.

At the end of the reporting period, the Company had 231,945,000 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 231,945,000 additional ordinary shares of the Company and additional share capital of HK$2,319,000 and share premium of HK$296,278,000 (before issue expenses).

Subsequent to the end of the reporting period, on 22 January 2015, a total of 90,864,000 share options were granted to certain of the employees of the Group in respect of their services to the Group in the forthcoming year. These share options vest on 22 January 2016 and have an exercise price of HK$1.492 per share and an exercise period ranging from 22 January 2016 to 22 January 2021. The price of the Company's shares at the date of grant was HK$1.46 per share.

Subsequent to the end of the reporting period, a total of 1,022,000 share options were exercised, resulting in the issue of 1,022,000 ordinary shares of the Company, with 3,744,000 share options being forfeited.

At the date of approval of these financial statements, the Company had 318,043,000 share options outstanding under the Scheme, which represented approximately 7.4% of the Company's shares in issue as at that date.

36. SHARE AWARD PLAN

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

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

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

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

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

36. SHARE AWARD PLAN (continued)

The legal and beneficial ownership of the relevant awarded shares shall vest in the relevant selected employee within 10 business days after the latest of: (a) the date specified by the directors on the notice of the award (which shall not be earlier than the first business day immediately following the expiry of six months after the adoption date); (b) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such selected employee as specified in the related notice of award has/have been attained and notified to the Trustee by the directors in writing; and (c) where applicable, the date on which the Trustee has completed the purchase of shares for the purpose of making the relevant award.

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

During the year, 1,204,000 shares were granted to an executive director of the Group (note 8) and the Group recognised a share award expense of HK$2,017,000 (2013: Nil).

At the end of the reporting period, the Group has already awarded all the 19,024,000 shares of the Company to its directors or employees pursuant to the Share Award Plan.

37. RESERVES

(A) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 46 to 49 of the financial statements.

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

In accordance with the PRC regulations, each of the PRC Subsidiaries is required to allocate 10% of its profit after tax, as determined under the PRC accounting regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. Part of the statutory reserve may be used either to offset losses, or to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

37. RESERVES (continued)

(B) COMPANY

	Notes	Share premium account HK$'000 (Note (i))	Contributed surplus HK$'000 (Notes (i) and (ii))	Share option reserve HK$'000	Share award reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2013		386,515	44,992	69,170	41,787	–	1,870	388	29,159	573,881
Total comprehensive income for the year	11	–	–	–	–	–	–	–	(10,870)	(10,870)
Issue of shares upon exercise of share options		31,083	–	(10,073)	–	–	–	–	–	21,010
Equity-settled share option arrangements	35	–	–	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 and 1 January 2014		**375,136**	**44,992**	**95,743**	**41,787**	**–**	**1,870**	**388**	**18,289**	**578,205**
Total comprehensive income for the year	11	**–**	**–**	**–**	**–**	**(1,889)**	**–**	**–**	**(42,387)**	**(44,276)**
Issue of bonus shares	34	**(21,347)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,347)**
Issue of shares upon exercise of share options	34	**103,957**	**–**	**(32,079)**	**–**	**–**	**–**	**–**	**–**	**71,878**
Equity-settled share option arrangements	35	**–**	**–**	**37,254**	**–**	**–**	**–**	**–**	**–**	**37,254**
Shares awarded under the Share Award Plan		**–**	**–**	**–**	**1,777**	**–**	**–**	**–**	**–**	**1,777**
Interim 2014 dividend	12	**(42,914)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,914)**
At 31 December 2014		**414,832**	**44,992**	**100,918**	**43,564**	**(1,889)**	**1,870**	**388**	**(24,098)**	**580,577**

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31 December 2014

37. RESERVES (continued)

(B) COMPANY (continued)

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.

38. OPERATING LEASE ARRANGEMENTS

(A) AS LESSOR

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to nine 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 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Within one year	**6,137**	6,295
In the second to fifth years, inclusive	**10,551**	14,430
After five years	**9,482**	12,004
	26,170	32,729

NOTES TO FINANCIAL STATEMENTS

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38. OPERATING LEASE ARRANGEMENTS (continued)

(B) AS LESSEE

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

	Group	
	2014	2013
	HK$'000	HK$'000
Within one year	**50,288**	41,302
In the second to fifth years, inclusive	**44,240**	64,325
	94,528	105,627

39. COMMITMENTS

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

	Group	
	2014	2013
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**335,897**	296,420

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

40. RELATED PARTY TRANSACTIONS

(A) BALANCE WITH A RELATED PARTY:

	Group	
	2014	2013
	HK$'000	HK$'000
Due to an associate	**3,830**	6,708

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

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40. RELATED PARTY TRANSACTIONS (continued)

(B) TRANSACTION WITH A RELATED PARTY:

	Group	
	2014	2013
	HK$'000	HK$'000
An associate:		
Purchase of raw materials	**35,525**	41,059

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

(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 of the financial statements, compensation of other key management personnel of the Group is set out as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,959**	5,876
Pension scheme contributions	**134**	99
Equity-settled share option expense	**3,096**	3,866
Total compensation paid to other key management personnel	**10,189**	9,841

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

NOTES TO FINANCIAL STATEMENTS

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41. 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 loans 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 2014

	Gross amounts of recognised financial asset/ (liability) HK$'000	Gross amounts of recognised (asset)/ liability set off in the statement of financial position HK$'000	Net amounts of financial asset represented in the statement of financial position HK$'000	Related amounts not set off in the statement of financial position: Financial instruments HK$'000	Related amounts not set off in the statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Restricted time deposits	**875,173**	**(875,173)**	**–**	**–**	**–**	**–**
Interest-bearing bank loans	**(875,173)**	**875,173**	**–**	**–**	**–**	**–**

31 December 2013

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

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42. 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					
	2014			2013		
	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	**–**	**56,152**	**56,152**	–	28,884	28,884
Trade receivables	**3,019,063**	**–**	**3,019,063**	2,998,154	–	2,998,154
Bills receivable	**553,099**	**–**	**553,099**	211,551	–	211,551
Loans receivable	**290,768**	**–**	**290,768**	–	–	–
Financial assets included in prepayments, deposits and other receivables	**162,569**	**–**	**162,569**	196,365	–	196,365
Due from a director	**–**	**–**	**–**	53	–	53
Pledged deposits	**641,659**	**–**	**641,659**	699,304	–	699,304
Cash and cash equivalents	**2,959,143**	**–**	**2,959,143**	1,628,266	–	1,628,266
	7,626,301	**56,152**	**7,682,453**	5,733,693	28,884	5,762,577

FINANCIAL LIABILITIES

	Group	
	2014 Financial liabilities at amortised cost HK$'000	2013 Financial liabilities at amortised cost HK$'000
Trade payables	**2,117,840**	1,876,058
Bills payable	**2,179,404**	2,695,579
Financial liabilities included in other payables and accruals	**1,562,566**	1,108,329
Interest-bearing bank borrowings	**2,163,422**	603,011
Due to an associate	**3,830**	6,708
	8,027,062	6,289,685

NOTES TO FINANCIAL STATEMENTS

31 December 2014

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

FINANCIAL ASSETS

	Company					
	2014			2013		
	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	**–**	**3,159**	**3,159**	–	–	–
Financial assets included in prepayments, deposits and other receivables	**53**	**–**	**53**	53	–	53
Due from subsidiaries	**2,701,666**	**–**	**2,701,666**	531,276	–	531,276
Pledged deposits	**23,677**	**–**	**23,677**	–	–	–
Cash and cash equivalents	**210,870**	**–**	**210,870**	216,684	–	216,684
	2,936,266	**3,159**	**2,939,425**	748,013	–	748,013

FINANCIAL LIABILITIES

	Company	
	2014 Financial liabilities at amortised cost HK$'000	2013 Financial liabilities at amortised cost HK$'000
Due to subsidiaries	**725,194**	76,555
Financial liabilities included in other payables and accruals	**4,733**	6,417
Interest-bearing bank borrowings	**1,789,470**	232,638
	2,519,397	315,610

43. 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	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale investments – listed	**3,159**	–	**3,159**	–
Financial liabilities				
Interest-bearing bank borrowings	**2,163,422**	603,011	**2,163,422**	603,011

Company	Carrying amounts		Fair values	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale investments – listed	**3,159**	–	**3,159**	–
Financial liabilities				
Interest-bearing bank borrowings	**1,789,470**	232,638	**1,789,470**	232,638

Management has assessed that the fair values of unlisted available-for-sale investments, 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 finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department 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 loans 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 2014 was assessed to be insignificant.

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31 December 2014

43. 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:

Assets measured at fair value:

Group

As at 31 December 2014

	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
Available-for-sale investments – listed	3,159	–	–	3,159

Company

As at 31 December 2014

	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
Available-for-sale investments – listed	3,159	–	–	3,159

The Group and the Company did not have any financial assets measured at fair value as at 31 December 2013.

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

FAIR VALUE HIERARCHY (continued)

Liabilities for which fair values are disclosed:

Group

As at 31 December 2014

	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	**–**	**2,163,422**	**–**	**2,163,422**

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

Company

As at 31 December 2014

	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	**–**	**1,789,470**	**–**	**1,789,470**

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 for both financial assets and financial liabilities (2013: Nil).

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44. 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 32 to the financial statements.

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

	Group		Company	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in basis points**	**Increase/ (decrease) in profit before tax** HK$'000
2014				
USD	**100**	**13,566**	**100**	**13,566**
USD	**(100)**	**(13,566)**	**(100)**	**(13,566)**
2013				
USD	100	750	100	300
USD	(100)	(750)	(100)	(300)

NOTES TO FINANCIAL STATEMENTS

31 December 2014

44. 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 loans are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD and EUR. 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 and EUR exchange rates, 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
2014		
If RMB weakens against USD	**5**	**(4,357)**
If RMB strengthens against USD	**(5)**	**4,357**
2013		
If RMB weakens against USD	5	(6,819)
If RMB strengthens against USD	(5)	6,819

	Group	
	Increase/ (decrease) in EUR	**Increase/ (decrease) in profit before tax**
	%	HK$'000
2014		
If RMB weakens against EUR	**5**	**5,501**
If RMB strengthens against EUR	**(5)**	**(5,501)**
If HKD weakens against EUR	**5**	**18,238**
If HKD strengthens against EUR	**(5)**	**(18,238)**
2013		
If RMB weakens against EUR	5	3,091
If RMB strengthens against EUR	(5)	(3,091)

NOTES TO FINANCIAL STATEMENTS

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK

Credit risk for sales of mobile phone

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, available-for-sale instruments and loans receivable, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group had concentrations of credit risk as 73% (2013: 91%) 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.

Credit risk for finance service

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under the loans the Group provided. Credit risk is primarily attributable to unexpired loans receivable. The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods.

The Group has taken measure to identify credit risks arising from finance service business. The Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. During the post-transaction monitoring process, the Group conducts on-site inspection and ongoing post-transaction reviews focusing on various aspects, including but not limited to customers' product markets, operating income, assets and liabilities, cash flows from operating activities to detect potential risks.

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.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

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

	2014		
	On demand and less than 12 months HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**2,117,840**	**–**	**2,117,840**
Bills payable	**2,179,404**	**–**	**2,179,404**
Financial liabilities included in other payables and accruals	**1,562,566**	**–**	**1,562,566**
Interest-bearing bank borrowings	**597,177**	**1,739,089**	**2,336,266**
Due to an associate	**3,830**	**–**	**3,830**
	6,460,817	**1,739,089**	**8,199,906**

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

NOTES TO FINANCIAL STATEMENTS

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

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

Company

	2014		
	On demand and less than 12 months HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Due to subsidiaries	**725,194**	**–**	**725,194**
Financial liabilities included in other payables and accruals	**4,733**	**–**	**4,733**
Interest-bearing bank borrowings	**513,382**	**1,415,662**	**1,929,044**
	1,243,309	**1,415,662**	**2,658,971**

Company

	2013		
	On demand and less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Due to subsidiaries	76,555	–	76,555
Financial liabilities included in other payables and accruals	6,417	–	6,417
Interest-bearing bank borrowings	232,801	–	232,801
	315,773	–	315,773

44. 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 2014 and 2013.

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

	2014 **HK$'000**	2013 HK$'000
Interest-bearing bank borrowings	**2,163,422**	603,011
Trade payables	**2,117,840**	1,876,058
Bills payable	**2,179,404**	2,695,579
Other payables and accruals	**2,853,419**	1,987,932
Due to an associate	**3,830**	6,708
Less: Cash and cash equivalents	**(2,959,143)**	(1,628,266)
Net debt	**6,358,772**	5,541,022
Equity attributable to owners of the Company	**3,353,321**	2,757,942
Capital and net debt	**9,712,093**	8,298,964
Gearing ratio	**65%**	67%

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45. EVENTS AFTER THE REPORTING PERIOD

(a) On 16 December 2014, the Company, Coolpad E-Commence Inc. (the "Coolpad E-Commence"), a direct wholly-owned subsidiary of the Company, and Tech Time Development Limited (the "Investor"), a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of Qihoo 360, a leading internet company in Mainland China with its shares listed on the New York Stock Exchange, entered into a Subscription Agreement, pursuant to which, the Investor agreed to subscribe and Coolpad E-Commence agreed to allot and issue of 900 ordinary shares, representing 45% equity interest of Coolpad E-Commence to the Investor at a cash consideration of USD409.05 million (equivalent to appropriately HK$3,170 million) (the "Deemed Disposal"). Up to the date of this Annual Report, the Deemed Disposal transaction has not yet been completed. Details of the Deemed Disposal transaction are set out in the announcements of the Group dated 16 December 2014, 9 January 2015 and 16 February 2015, respectively.

(b) On 22 January 2015, 90,864,000 share options were grated to certain employees of the Group, as further detailed in note 35 to the financial statements.

(c) On 23 January 2015, a wholly-owned subsidiary, Dazen Networks Scientific (Shenzhen) Co., Ltd. ("Dazen Networks"), was established by the Group. Principal activities of Dazen Networks is the provision of integrated solutions for smartphone sets, mobile data platform system, and value-added telecommunications business operations.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2015.