

China Wireless Technologies Limited 中國無線科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(stock code: 2369)



Coolpad 酷派
live smart

Interim Report **2010**

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CORPORATE PROFILE

China Wireless Technologies Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2002. The shares of the Company 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. (the “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”). The company 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 paging, GSM, CDMA1X, TD-SCDMA, CDMA1X(EVDO) and WCDMA networks, the Company and its subsidiaries (collectively, the “Group”) have developed a large number of proprietary technologies and patents in mobile operating systems, radio frequency, protocols and wireless data decomposed transmission technology, etc. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of high-end dual-mode dual-working smartphone in the Mainland China’s telecommunications market.

In spite of being a leading wireless data solutions 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 closely 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 consumers’ dream by providing customized products and services based on its own mobile operating systems and applications.

CORPORATE INFORMATION

REGISTERED OFFICE

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KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Hi-Tech Industry Park (North)
Nanshan District
Shenzhen

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. JIANG Chao, ACCA

AUDIT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. GUO Deying
Mr. JIANG Chao

CONTACT INFORMATION FOR INVESTOR RELATIONS

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AUDITORS AND REPORTING ACCOUNTANTS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

COMPANY WEBSITES

www.chinawireless.cn
www.irasia.com/listco/hkchinawireless

STOCK CODE

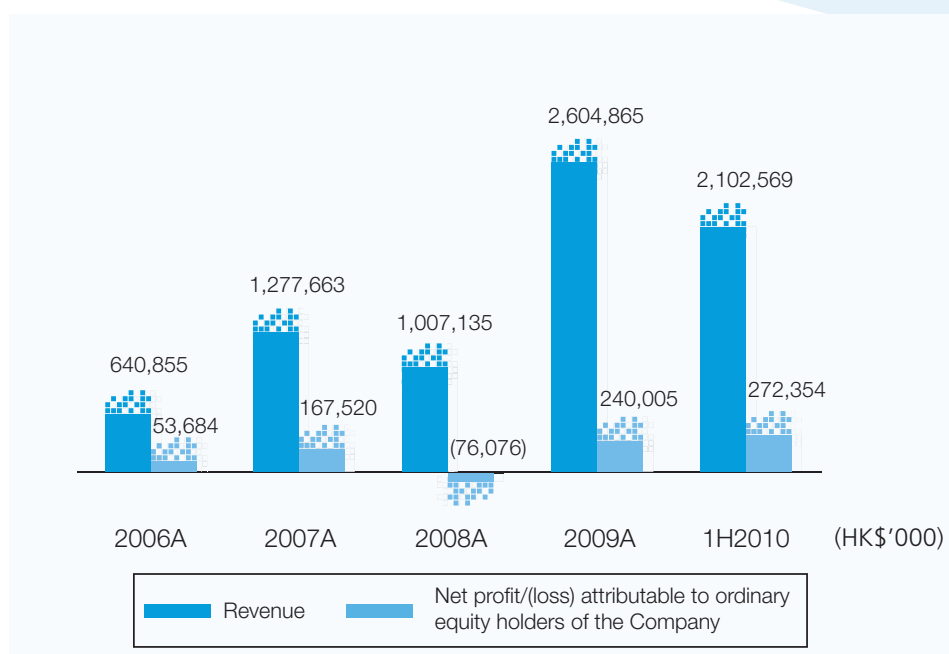
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FINANCIAL HIGHLIGHTS

The financial data below are extracted from the Group's financial statements unaudited for the six months ended 30 June 2010 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

	Six months ended 30 June		
	2010 (HK\$'000) (Unaudited)	2009 (HK\$'000) (Unaudited)	Change
Operating results			
Revenue	2,102,569	715,701	+193.8%
Profit before tax	288,082	37,744	+663.3%
Tax	15,728	5,335	+194.8%
Net profit attributable to ordinary equity holders of the Company	272,354	32,409	+740.4%
Basic earnings per ordinary share	13.08 cents	1.59 cents	+722.6%
Diluted earnings per ordinary share	12.65 cents	1.58 cents	+700.6%
Proposed interim dividend per ordinary share	1.0 cent	1.0 cent	Nil

	At 30 June 2010 (HK\$'000) (Unaudited)			At 31 December 2009 (HK\$'000) (Audited)		Change
	At 30 June 2010 (HK\$'000) (Unaudited)	At 31 December 2009 (HK\$'000) (Audited)	Change			
Financial position						
Non-current assets	845,341	831,430	+1.7%			
Current assets	2,001,086	1,418,416	+41.1%			
Non-current liabilities	197,199	245,096	-19.5%			
Current liabilities	1,471,751	1,125,624	+30.7%			
Net assets	1,177,477	879,126	+33.9%			
Cash and cash equivalents	467,232	251,401	+85.9%			



MANAGEMENT DISCUSSION & ANALYSIS

The following discussion and analysis should be read in conjunction with the Group's unaudited condensed consolidated financial statements and its accompanying notes.

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Revenue		
3G Coolpad smartphone	1,799,877	247,892
2G Coolpad smartphone	285,880	459,132
Others	16,812	8,677
Total revenue	2,102,569	715,701
Cost of sales	(1,481,821)	(472,176)
Gross profit	620,748	243,525
Other income and gains	41,464	23,706
Selling and distribution costs	(147,957)	(104,021)
Administrative expenses	(219,485)	(111,090)
Other expenses	(2,683)	(5,367)
Finance costs	(3,995)	(9,009)
Share of loss of an associate	(10)	–
Profit before tax	288,082	37,744
Tax	(15,728)	(5,335)
Profit for the period	272,354	32,409
Earnings per share – basic	13.08 cents	1.59 cents
– diluted	12.65 cents	1.58 cents

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYZED BY PRODUCT TYPES

A comparative breakdown of the consolidated revenue by product types is set forth in the following table for the periods indicated:

Revenue	Six months ended 30 June			
	2010		2009	
	Revenue HK\$ million (Unaudited)	% of total revenue	Revenue HK\$ million (Unaudited)	% of total revenue
3G Coolpad smartphone	1,799.9	85.6%	247.9	34.6%
2G Coolpad smartphone	285.9	13.6%	459.1	64.2%
Others	16.8	0.8%	8.7	1.2%
Total	2,102.6	100%	715.7	100%

	Six months ended 30 June	
	2010 (Unaudited)	2009 (Unaudited)
Number of Coolpad smartphone sold (units)	2,000,000	570,000
Average Selling Price ("ASP") (HK\$)	1,040	1,240

The Group's unaudited revenue for the six months ended 30 June 2010 amounted to HK\$2,102.6 million, representing a remarkable growth of 193.8% as compared with HK\$715.7 million for the six months ended 30 June 2009. The significant increase in revenue during the reporting period was driven by the strong increase in the sales volume of 3G Coolpad smartphone as a result of the continuously vibrant development of 3G mobile subscribers in Mainland China during the first half of 2010.

The revenue from 3G Coolpad smartphone increased by 626.1% to HK\$1,799.9 million for the six months ended 30 June 2010 as compared with HK\$247.9 million for the corresponding period in 2009. The sales volume of 3G Coolpad smartphone increased by approximately 1,320,000 units to 1,420,000 units in the first half of 2010, as compared with 100,000 units in the corresponding period of 2009. Revenue contribution from this segment surged from 34.6% in the first half of 2009 to 85.6% in the first half of 2010. The significant increase in the sales volume of 3G Coolpad smartphone was primarily attributable to the successful introduction of some 3G smartphone models to the domestic vibrant 3G mobile market during the reporting period. So far, the Group's 3G product lines have covered all range of 3G networks, including TD-SCDMA, CDMA1X(EVDO) as well as WCDMA network. Therefore, the sales of 3G Coolpad smartphone have already become the Group's main revenue stream.

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYZED BY PRODUCT TYPES (continued)

The revenue from 2G Coolpad smartphone decreased to HK\$285.9 million for the six months ended 30 June 2010 from HK\$459.1 million for the corresponding period in 2009. Notwithstanding the increase in the sales volume of 2G Coolpad smartphone from 480,000 units in the first half of 2009 to 560,000 units in the first half of 2010, revenue contribution from this segment dropped from 64.2% in the first half of 2009 to 13.6% in the first half of 2010, due primarily to the dramatic decline in the ASP of 2G Coolpad smartphone in the reporting period.

Other revenue was primarily generated from the sales of Coolpad smartphone's accessories. Other revenue increased by HK\$8.1 million, or 93.1%, to HK\$16.8 million for the six months ended 30 June 2010 as compared with HK\$8.7 million for the corresponding period in 2009. The increase in other revenue during the reporting period was mainly attributable to the increase in the sales of Coolpad smartphone's accessories and others.

The Group's overall ASP decreased to HK\$1,040 in the first half of 2010 from HK\$1,240 for the corresponding period in 2009. The decline of the overall ASP resulted primarily from a change in the Group's product mix since the Group entered the field of mid and low-end highly competitive mobile phone market during the reporting period.

GROSS PROFIT

Gross Profit	Six months ended 30 June		2009	
	2010	2010	2009	2009
	Gross profit HK\$ million (Unaudited)	Gross profit margin	Gross profit HK\$ million (Unaudited)	Gross profit margin
3G Coolpad smartphone	552.2	30.7%	100.2	40.4%
2G Coolpad smartphone	61.7	21.6%	138.9	30.3%
Other	6.8	40.5%	4.4	50.6%
Total	620.7	29.5%	243.5	34.0%

The Group's overall gross profit for the six months ended 30 June 2010 grew to HK\$620.7 million, representing an increase of 154.9% as compared with HK\$243.5million for the corresponding period in 2009. Its overall gross profit margin dropped to 29.5% in the reporting period, down 4.5% as compared with 34.0% in the corresponding period of 2009. Meanwhile, the gross profit margin relating to 3G Coolpad smartphone and 2G Coolpad smartphone decreased by 9.7% and 8.7%, respectively as compared with the corresponding period of 2009. The decrease in gross profit margin was primarily attributable to the decline of its ASPs as a result of the increase in the sales of mid and low-end Coolpad smartphone during the reporting period.

MANAGEMENT DISCUSSION & ANALYSIS

OTHER INCOME AND GAINS

Other income and gains of the Group increased by HK\$17.8 million, or 75.1%, to HK\$41.5 million for the six months ended 30 June 2010 as compared with HK\$23.7 million for the corresponding period in 2009. This net increase of HK\$17.8 million was primarily generated from the increase of the Group's rental income, interest income, government grants and subsidies, and others.

SELLING AND DISTRIBUTION COSTS

	Six months ended 30 June	
	2010 (Unaudited)	2009 (Unaudited)
Selling and distribution costs (HK\$ million)	148.0	104.0
As a percentage of total revenue	7.0%	14.5%

Selling and distribution costs of the Group for the six months ended 30 June 2010 increased by HK\$44.0 million to HK\$148.0 million from HK\$104.0 million for the corresponding period in 2009. The net increase of HK\$44.0 million was primarily attributable to increased expenditures for marketing, advertising and promotion expenses to support new product launches. As a percentage of total revenue, selling, and distribution costs significantly dropped to 7.0% in the first half of 2010 as compared with 14.5% in the corresponding period of 2009. The net decrease of 7.5% as a percentage of total revenue primarily reflected the Group has effectively controlled the marketing expenses through a series of strict expenses budgeting policies and measures during the reporting period.

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2010 (Unaudited)	2009 (Unaudited)
Administrative expenses (HK\$ million)	219.5	111.1
As a percentage of total revenue	10.4%	15.5%

Administrative expenses increased by HK\$108.4 million to HK\$219.5 million for the six months ended 30 June 2010 from HK\$111.1 million for the corresponding period in 2009. The net increase of HK\$108.4 million was primarily attributable to HK\$43.5 million increase of the expenses of awarded shares of the Company to the Group's employees according to the Share Award Plan (Note 21) and increased expenditures for staff costs and welfare expenses primarily as a result of increased headcounts of R&D personnel. As a percentage of total revenue, administrative expenses dropped by 5.1% to 10.4% in the first half of 2010 as compared with 15.5% in the corresponding period of 2009. The net decrease of 5.1% as a percentage of total revenue primarily indicated the economy of scale achieved by the Group amid its continuous business expansion.

MANAGEMENT DISCUSSION & ANALYSIS

TAX

For the six months ended 30 June 2010, the Group's income tax expenses increased to HK\$15.7 million, representing an increase of HK\$10.4 million as compared with HK\$5.3 million for the corresponding period in 2009. The increase in the current income tax expenses was primarily due to increased gross profit during the reporting period.

NET PROFIT

Net profit of the Group amounted to HK\$272.4 million, or basic EPS of HK13.08 cents, for the six months ended 30 June 2010 as compared with HK\$32.4 million, or basic EPS of HK1.59 cents, for the six months ended 30 June 2009. The HK\$240 million increase in net profit in the first half of 2010 reflected primarily an increase in gross profit in the amount of HK\$377.2 million, which was partially offset by an aggregate increase of HK\$162.8 million in the Group's selling and distribution costs, administrative expenses and income tax expenses.

GEARING RATIO AND THE BASIS OF CALCULATION

The Group's gearing ratio as at 30 June 2010 was 49.3%, representing a decrease of 5.7% as compared with 55.0% as at 31 December 2009. The decrease was mainly attributable to the increase of capital as a result of increased revenue and net profit during the reporting period. The gearing ratio is equal to net debt divided by the sum of capital and net debt.

LIQUIDITY AND FINANCIAL RESOURCE

For the six months ended 30 June 2010, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements.

Cash and cash equivalents of the Group as at 30 June 2010 amounted to HK\$467.2 million, while it was HK\$251.4 million as at 31 December 2009.

CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group was significantly benefited from the rapid growth of 3G subscribers and maintained a strong and steady growth momentum during the reporting period. Both operating profit and shipment achieved a record for the six months ended 30 June 2010. Operating revenue for the six months ended 30 June 2010 nearly tripled that of the corresponding period of 2009. Its market share and Coolpad brand reputation in the domestic 3G mobile phone market has further improved. The Group as well broke into WCDMA smartphone market since the roll-out of Coolpad W700 smartphone in January 2010, which featured as the first WCDMA/GSM dual-mode dual-working functionality in the world as well as the Group's first flip ("chamshell") phone. So far, the Group has become one of the few 3G mobile phone vendors who are able to offer any mode of 3G mobile phones worldwide.

The Group quickly responded to the domestic mobile operators' tailor-made requirement and successfully rolled out a record number of 3G smartphone products for the six months ended 30 June 2010, that's, one WCDMA/GSM dual-mode flip smartphone (Coolpad W700), four TD-SCDMA(HSDPA)/GSM dual-mode smartphone (such as Coolpad 603 featured with low-end smartphone, Coolpad 8900 smartphone with China Mobile's Ophone operating system) and six CDMA1X(EVDO)/GSM dual-mode smartphone (such as Coolpad 520 with a feature-rich, higher price performance smartphone, Coolpad E230 an entry-level 3G smartphone with retail price at approximately RMB1,000). These new products significantly contributed the strong revenue and market share growth during the first half of 2010. Currently, Coolpad brand has been widely recognized as China's top 3G smartphone brand by its consumers and business partners primarily due to its strong 3G product mix.

The Group continued to focus on the enhancement of R&D capabilities. The Group has further strengthened its multi mobile operating system platform through developing Android-embedded mobile operating system. The Group's mobile software platform now included Windows CE, Brew, Linux and Android (on developing and testing), respectively. In respect of mobile hardware designing, the Group began to collaborate with several 3G mobile chipset providers such as Marvell, T3G and Texas Instruments (TI) and with some famous mobile industry designers apart from the close collaboration with Qualcomm, Freescale, Datang Telecom and Leadcoretech. Hence, the Group achieved some breakthrough in regard of mobile software, hardware and new generation technologies through these outside supports from the leading suppliers in the industry. Moreover, the Group further developed and simplified Coolmart platform of mobile software application store that supports industry standards, so as to make more third-party independent software service and applications compatible with Coolpad smartphone. In particular, there are more and more Coolpad users beginning to enroll a Coolpadtone account for enjoying the exciting mobile experience.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW (continued)

Maintaining well-known brand recognition is absolutely critical to the Group, as it stretched its product positioning from high and super high-end market to the mobile mass market. Thus, the Group set 2010 as Coolpad Brand Promotion Year. The Group initiated a variety of brand promotion campaign, including putting lots of advertisement on some famous television programs, newspaper and magazine, as well as outdoor media, to promote its new brand version “Coolpad, live smart”. On the other hand, the Group further expanded its social distribution channels apart from its traditional channel in the domestic mobile operators’ resale market. As at 30 June 2010, the Group developed more than 150 local distributors and agents at home and abroad, and directly established four Coolpad image shops and more than 10 Coolpad 3G specialized outlets inside some supermarket throughout Mainland China.

The Group also put focus on the improvement of general operation efficiency. The Group took a series of measures to improve its internal operating process and administrative efficiency during the reporting period. For example, the Group intensively promoted its Integrated Program Development (IPD) process and Integrated Intelligence Proprietary Platform (IPP) in the R&D department, and established Electronic Finance System (EFS), Integrated Office Automation (IOA) and Supplier Relations Management (SRM) System and other information technology integrated systems to improve internal operating process and administrative efficiency.

The factory in Songshan Lake, Dongguan city, put into operation in January 2010. The new production infrastructure were expanded and improved its equipment for product testing and assembly which further assured product quality and production cost controls.

BUSINESS OUTLOOK

The Group, as a leading 3G mobile phone vendor, is expected to continuously keep close pace with the growth of domestic 3G mobile phone market in the coming future through firmly adhering to the strategies of R&D enhancement and technology innovation, product differentiation, marketing and distributions strengthening and administrative efficiency improvements.

Innovation is the Group’s core culture. Driven by the rapid deployment of new technologies and evolving consumer requirements, the Group will further invest in R&D and continuous innovation on products and service. The Group will continue to develop and optimize its standard software and hardware development platform through close cooperation with the industry leading suppliers so as to introduce more feature-rich, ease-to-use Coolpad products and service. The Group will continue to grow and strengthen the depth of cooperation with the domestic mobile operators in the field of R&D on next generation network support (such as 4G technology of TD-LTE), mobile payment and related technologies about cloud computing and storage. Particularly, the Group will also continue to focus the technological innovation on user-interface (UI) and interaction industry design (ID) so as to improve consumer’s mobile experience and loyalty. The Group’s Android-embedded Coolpad smartphone, which expensed more-than-one-year intensive R&D by over two hundred engineers, will be introduced with a completely new UI and ID to the consumer in the second half of 2010. The series of new Android-embedded Coolpad smartphone is considered another excellent flagship model following the Coolpad N900 series launched last year. The Group believes the Android-embedded Coolpad smartphone will not only largely improve the Group’s brand recognition but also broaden its revenue resource.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OUTLOOK (continued)

Product differentiation is the Group's key competitive advantage. The Group will persist in differentiated product positioning to develop more user-friendly, innovative products for its consumers. The Group will introduce a series of dual-mode dual-working Coolpad 3G smartphone based on its technology advantage in regard to dual-mode dual-working smartphone, so as to further strengthen its leading position in the domestic high-end dual-mode niche market. The Group plans to develop two TD-SCDMA(HSDPA)/GSM dual-mode dual-working Coolpad smartphone, four CDMA1X(EVDO)/GSM dual-mode dual-working Coolpad smartphone, and one or two WCDMA/GSM dual-mode dual-working Coolpad smartphone. The Group also plans to launch several TD-SCDMA(HSDPA), CDMA1X(EVDO), WCDMA and CDMA1X single-mode smartphones, respectively, so as to enlarge its 3G/2G product portfolio.

Mobile appearance becomes most of importance to the consumers nowadays. The Group will strive to diversify its product appearance, and develop more flip and slide phones in different colors in addition to its traditional bar phones. In order to enlarge its market share in domestic 3G mobile phone market, the Group will also put more focus on mid and low-end entry-level smartphone models in the second half of 2010. In addition, the Group has much incentive to develop a series of wireless data access devices and MID (like iPad) products to meet the blooming 3G market demand in Mainland China. Thus, business scope and depth of the Group will be aggressively broadened and strengthened in the coming future.

The Group believes the availability for product sales is critical to attract new and retain existing customers. The Group will strive to develop the direct and indirect social distribution channels besides the focus on mobile operators' resale market, so as to further expand its customer base. The Group will continue to build more Coolpad image shops and 3G specialized outlets in China's main municipal cities, and develop more social distributors and agents at home and abroad.

The Group put a strong emphasis on the enhancement of general operation efficiency. The Group will continue to reorganize the R&D and marketing department's structure and function, and optimize the operating and manufacturing process through internal information technology integrated systems in order to quickly respond to market demand and customer needs. Sound internal management and quick responding to market and consumers is gradually becoming another key competitive advantage for the Group.

Lastly, the board of the directors ("Directors") and the management of the Group would like to address that the Group has never faced so severe competition and threats from a significant number of competitors, many of which have broader product lines, lower cost structure, larger customer bases, and significant technical, marketing, distribution and other resources, since it expanded its product focus on mid and low-end mobile phone market from high-end market presently. Moreover, the Group's client base is still concentrated within the domestic mobile operators. Thus the Group's sales is susceptible to the change of operators' 3G subscribers promotion strategies and policies. All of the above factors imposed much uncertainty and volatility with respect of the Group's sales and shipment, and put harsh pressure on its ASP and gross margins. Nevertheless, the Group believes that it is well positioned to lead the 3G telecommunications market and gain success in the coming future through leveraging the strategy of continuous R&D investments and technology innovation, differentiated product positioning, maintaining quick-responded capabilities to market demand and consumer needs, and hard-working (天道酬勤) philosophy.

MANAGEMENT DISCUSSION & ANALYSIS

FOREIGN EXCHANGE EXPOSURE

During the reporting period, the Group's revenue, expenses, assets and liabilities were mainly denominated in Renminbi (RMB). Taking into account the Group's operation and capital needs, the Directors consider that the Group did not have any significant foreign exchange exposure.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, 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.

INTEREST RATE RISK

The risk in interest rate concerning the Group primarily related to our short-time and long-time bank loans and other borrowings. The interests are calculated at fixed and floating rates. Any rise in the current interest rate will increase the interest cost. To the end of the reporting period, the Group has neither executed any form of interest rate agreement or derivative to hedge against the fluctuation in interest rate.

EMPLOYEES AND REMUNERATION POLICY

The total staff cost for the six months ended 30 June 2010 amounted to HK\$174.1 million. The remuneration of the Group's employees is commensurate with their responsibilities and market rates, with discretionary bonuses given on a merit basis. The Group also provides on-the-job training to its employees from time to time.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 30 June 2010.

MANAGEMENT DISCUSSION & ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL DURING THE REPORTING PERIOD

There were no material acquisitions and disposals of the Company, its subsidiaries and associated companies during the reporting period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the reporting period, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

SHARE OPTION SCHEME

The Company has adopted a share option scheme by a written resolution of all shareholders of the Company on 21 November 2004 (the "Share Option Scheme"). Details of options granted under the Share Option Scheme are disclosed in Note 20 to the Financial Statements below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option scheme" in this report, at no time during the reporting period were rights to acquire benefits by means of acquisition of shares in the Company granted to any Director or their respective spouse 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.

MANAGEMENT DISCUSSION & ANALYSIS

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

As at 30 June 2010, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (the "Model Code"), for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares of the Company

Name of Directors	Notes	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	Share option	Total	Approximate percentage of the Company's issued share capital
Mr. Guo Deying	1 & 2	-	831,171,248	14,332,000	-	831,171,248	-	845,503,248	40.32
Mr. Jiang Chao	3	-	-	-	14,332,000	-	-	14,332,000	0.68
Mr. Li Bin	4	6,400,000	-	-	-	-	7,000,000	13,400,000	0.64
Mr. Li Wang	4	6,400,000	-	-	-	-	5,000,000	11,400,000	0.54
Ms. Yang Xiao	1&2	-	831,171,248	14,332,000	-	-	-	845,503,248	40.32
Mr. Chan King Chung	4	-	-	-	-	-	192,000	192,000	0.01
Dr. Huang Dazhan	4	-	-	-	-	-	144,000	144,000	0.01
Mr. Xie Weixin	4	-	-	-	-	-	192,000	192,000	0.01
Mr. Yang Xianzu	4	-	-	-	-	-	192,000	192,000	0.01

MANAGEMENT DISCUSSION & ANALYSIS

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

Long positions in shares of an associated corporation

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

Notes:

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

Each of Mr. Guo and Ms. Yang is taken to be interested in the 831,171,248 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Unit Trust and by virtue of the interests of their minor children under the Barrie Bay Unit Trust. The long positions in the Company's shares of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of a discretionary trust" in the table headed "Long positions in shares of the Company" above refers to the same 831,171,248 shares. Each of Mr. Guo and Ms. Yang is taken to be interested in the entire issued share capital of Data Dreamland as each of them is a settlor of the Barrie Bay Unit Trust and by virtue of the interests of their minor children under the Barrie Bay Trust. The long positions in shares of Data Dreamland of each of Mr. Guo and Ms. Yang in the column "Through spouse or minor children" and the column "Founder of a discretionary trust" under the table headed "Long positions in shares of an associated corporation" above refers to the same 1,000 shares.

2. Mr. Guo was taken to be interested in the 14,332,000 Shares held by Wintech Consultants Limited as he was one out of the three Directors of Wintech Consultants Limited and the other two Directors were accustomed to act in accordance with Mr. Guo's direction.
3. Mr. Jiang Chao, an executive Director, was interested in the 14,332,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the China Wireless Share Award Plan.
4. The interests of these Directors are in the underlying shares of the options granted to the relevant Directors by the Company under the Share Option Scheme.

MANAGEMENT DISCUSSION & ANALYSIS

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

As at 30 June 2010, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company

Name	Notes	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited ("Data Dreamland")	1	831,171,248	Beneficial owner	831,171,248	39.64
Barrie Bay Limited ("Barrie Bay")	2	831,171,248	Interest of controlled corporation	831,171,248	39.64
HSBC International Trustee Limited ("HSBC Trustee")	2	831,171,248	Trustee	831,171,248	39.64

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 Unit Trust. The Barrie Bay Unit Trust is held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. Guo and Ms. Yang and the discretionary objects of which include the minor children of Mr. Guo and Ms. Yang.
2. The 831,171,248 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.

Save as disclosed above, as at 30 June 2010, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

MANAGEMENT DISCUSSION & ANALYSIS

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

Code Provision A.2. 1 of the Code of Corporate Governance Practices (the “Code”) as was set out in Appendix 14 of the Listing Rules stipulates that the roles of chairman and chief executive officer should be separated 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 thus implement decisions promptly and efficiently.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company was not, for any part of the six months ended 30 June 2010, in compliance with the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of the Directors, the Directors have complied with the required standard set out in the Model Code, throughout the accounting period under review.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprising the four independent non-executive Directors, namely Mr. Chan King Chung (the Chairman), Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Yang Xianzu, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Group’s unaudited financial statements for the six months ended 30 June 2010 have been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made therein.

For and on behalf of

China Wireless Technologies Limited

Guo Deying

Chairman & Chief Executive Officer

Hong Kong, 6 August 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	The six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
REVENUE	4	2,102,569	715,701
Cost of sales		(1,481,821)	(472,176)
Gross profit		620,748	243,525
Other income and gains	4	41,464	23,706
Selling and distribution costs		(147,957)	(104,021)
Administrative expenses		(219,485)	(111,090)
Other expenses		(2,683)	(5,367)
Finance costs	6	(3,995)	(9,009)
Share of loss of an associate		(10)	–
PROFIT BEFORE TAX	5	288,082	37,744
Tax	7	(15,728)	(5,335)
PROFIT FOR THE PERIOD		272,354	32,409
OTHER COMPREHENSIVE INCOME			
Surplus on revaluation of buildings, net of tax		8,149	4,315
Exchange differences on translation of foreign operations		9,417	(885)
Other Comprehensive income for the period, net of tax		17,566	3,430
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		289,920	35,839
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		13.08 cents	1.59 cents
Diluted		12.65 cents	1.58 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	300,774	292,548
Investment properties		287,903	285,254
Prepaid land lease payments		61,946	62,062
Intangible assets		111,768	113,083
Interest in an associate	11	–	8,513
Other non-current assets		80,095	68,167
Deferred tax assets		2,855	1,803
Total non-current assets		845,341	831,430
CURRENT ASSETS			
Inventories	12	591,108	518,089
Trade receivables	13	180,720	294,378
Bills receivable	14	92,908	45,644
Prepayments, deposits and other receivables	15	204,017	121,616
Due from directors		885	551
Pledged time deposits		464,216	186,737
Cash and cash equivalents		467,232	251,401
Total current assets		2,001,086	1,418,416
CURRENT LIABILITIES			
Trade payables	16	317,948	369,870
Bills payable	17	241,499	138,279
Other payables and accruals		611,276	497,153
Interest-bearing bank and other borrowings	18	279,437	79,648
Due to an associate		–	7,413
Tax payable		21,591	33,261
Total current liabilities		1,471,751	1,125,624
NET CURRENT ASSETS		529,335	292,792
TOTAL ASSETS LESS CURRENT LIABILITIES		1,374,676	1,124,222

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	18	160,549	212,356
Deferred tax liabilities		31,939	28,076
Long term rental deposits		4,711	4,664
Total non-current liabilities		197,199	245,096
NET ASSETS		1,177,477	879,126
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	19	20,970	20,591
Shares held for the Share Award Plan	21	(320)	(3,799)
Reserves		1,156,827	799,661
Proposed final dividend		–	62,673
Total equity		1,177,477	879,126

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	The six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
At 1 January – total equity	879,126	641,099
Total comprehensive income for the period	289,920	35,839
Issue of shares, including share premium	22,450	1,887
Equity-settled share option arrangements	3,845	7,471
Vesting of awarded shares	3,479	(974)
Transfer to share premium account from share option reserve	9,112	452
Transfer from share option reserve to share premium account	(9,112)	(452)
Transfer to share premium account from shares held for Share Award Plan	(3,359)	–
Shares reserve held for the Share Award Plan	44,662	–
Final 2009 dividend declared	(62,646)	–
At 30 June – total equity	1,177,477	685,322

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	The six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Net cash flows from operating activities	581,198	101,658
Net cash flows used in investing activities	(338,704)	(7,049)
Net cash flows used in financing activities	(28,718)	(53,835)
Net increase in cash and cash equivalents	213,776	40,774
Cash and cash equivalents at beginning of the period	251,401	124,915
Effect of foreign exchange rate changes, net	2,055	(149)
Cash and cash equivalents at end of the period	467,232	165,540

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

China Wireless Technologies Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

During the reporting period, the Group continued to focus on the research and development, production and sales of Coolpad smartphone.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Data Dreamland Holding Limited, which was incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and other relevant standards and interpretations and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2009.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the Group’s interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for the adoption of the new standards and interpretations mandatory as of 1 July 2009 and 1 January 2010, noted below:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards-Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement-Eligible Hedged Items</i>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations-Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases-Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

3. SEGMENT INFORMATION

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

- (a) the mobile phone segment engages in the research, development, production and sale of mobile phones; and
- (b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, share of loss of an associate, as well as head office and corporate expenses are excluded from such measurement.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (continued)

	Mobile phone HK\$'000	Property investment HK\$'000	Total HK\$'000
The six months ended 30 June 2010 (Unaudited)			
Segment revenue:			
Sales to external customers	2,102,569	–	2,102,569
Other revenue	–	11,617	11,617
Total	2,102,569	11,617	2,114,186
Segment results	281,860	10,948	292,808
Reconciliation:			
Interest income			1,962
Corporate and other unallocated expenses			(2,683)
Finance costs			(3,995)
Share of loss of an associate			(10)
Profit before tax			288,082
The six months ended 30 June 2009 (Unaudited)			
Segment revenue:			
Sales to external customers	715,701	–	715,701
Other revenue	13,061	9,943	23,004
Total	728,762	9,943	738,705
Segment results	41,475	9,943	51,418
Reconciliation:			
Interest income			702
Corporate and other unallocated expenses			(5,367)
Finance costs			(9,009)
Profit before tax			37,744
Segment assets			
At 30 June 2010 (Unaudited)	1,613,800	298,324	1,912,124
At 31 December 2009 (Audited)	1,504,678	296,714	1,801,392

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold during the six months ended 30 June 2010, after allowances for returns and trade discounts and net of sales tax and value-added tax (the "VAT"). All significant intra-group transactions have been eliminated on consolidation. An analysis of revenue, other income and gains is as follows:

	The six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (UnAudited)
Revenue		
Sale of mobile phones	2,102,569	715,701
Other income		
Gross rental income	11,617	9,943
Bank interest income	1,962	702
Government grants and subsidies*	17,385	12,958
Others	10,500	103
	41,464	23,706
	2,144,033	739,407

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	The six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Cost of inventories sold	1,481,821	472,176
Depreciation	9,157	9,482
Amortisation of patents and licences*	4,493	8,360
Recognition of prepaid land lease payments	687	685
Research and development costs:		
Product development costs amortised*	17,877	5,017
Current period expenditure	34,284	46,097
	52,161	51,114
Operating lease rental	3,701	3,546
Loss on disposal of items of property, plant and equipment	302	344
Loss on disposal of materials	–	4,834
Provision for inventories	27,994	–

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

6. FINANCE COSTS

	The six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Interest on:		
Bank loans	8,871	12,701
Bills payable	–	1,527
	8,871	14,228
Less: Interest capitalised	(4,876)	(5,219)
	3,995	9,009

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. TAX

No provision for Hong Kong profits tax has been made (six months ended 30 June 2009: nil) as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2010. 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.

	The six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Group:		
Current – Mainland China	15,465	1,400
Deferred income tax	263	3,935
Total tax charge for the period	15,728	5,335

8. DIVIDENDS

On 6 August 2010, the Directors resolved to declare interim dividend of HK\$0.01 per share in respect of the six months ended 30 June 2010 to shareholders whose name appears on the register of members of the Company by close of business on Friday, 10 September 2010 (six months ended 30 June 2009: HK\$0.01). The interim dividend will be attributed on or about 15 September 2010. For this purpose, the register of members of the Company will be closed from 8 September 2010 to 10 September 2010 inclusive, during which no transfer of shares will be affected. In order to qualify for the interim dividends, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 7 September 2010.

As the interim dividend is declared after the end of the reporting period, such dividend is not recognised as a liability as at 30 June 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of basic earnings per share amounts is based on the net profit for the six months ended 30 June 2010 attributable to ordinary equity holders of the Company of HK\$272,354,000 (six months ended 30 June 2009: HK\$32,409,000), and the weighted average number of ordinary shares in issue during the six months ended 30 June 2010 of 2,082,263,249 (six months ended 30 June 2009: 2,038,842,889).

The calculation of diluted earnings per share amounts is based on the net profit for the six months ended 30 June 2010 attributable to ordinary equity holders of the Company of HK\$272,354,000. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period of 2,082,263,249 as used in the basic earnings per share calculation and the weighted average number of ordinary shares of 70,918,643 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:

	The six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Earnings		
Net profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	272,354	32,409
	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	2,082,263,249	2,038,842,889
Effect of dilution – weighted average number of ordinary shares:		
Share options	70,918,643	6,555,388
	2,153,181,892	2,045,398,277

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

- (a) Property, plant and equipment with a net book value of HK\$314,000 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: HK\$351,000), resulting in a loss on disposal of HK\$302,000 (six months ended 30 June 2009: HK\$344,000).
- (b) During the six months ended 30 June 2010, property, plant and equipment with a book value of HK\$15,026,000 were purchased.

11. INTERESTS IN AN ASSOCIATE

	Group	
	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Share of net assets	–	8,513

The associate was wound up on 25 January 2010.

12. INVENTORIES

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Raw materials	229,520	285,894
Work in progress	88,689	92,301
Finished goods	272,899	139,894
	591,108	518,089

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly payment in advance. Customers with a long term business relationship with the Group and good repayment history may obtain a credit period of three to six months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 3 months	130,943	292,426
4 to 6 months	43,908	1,702
7 to 12 months	5,869	250
1 to 2 years	399	510
More than 2 years	698	577
	181,817	295,465
Less: Impairment	(1,097)	(1,087)
	180,720	294,378

14. BILLS RECEIVABLE

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 3 months	92,908	45,644

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Advances to suppliers	156,124	102,657
Current portion of prepaid land lease payment	1,383	1,371
Prepayment for purchase of leasehold land	39,442	22,644
Prepaid expenses	2,173	3,099
Prepayment for purchase of properties, plants and equipment	38,480	42,424
Deposits and other receivables	46,510	17,588
	284,112	189,783
Less: Non-current portion	(80,095)	(68,167)
Current portion	204,017	121,616

16. TRADE PAYABLES

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 3 months	298,330	365,196
4 to 6 months	10,163	1,084
7 to 12 months	1,716	577
More than 1 year	7,739	3,013
	317,948	369,870

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. BILLS PAYABLE

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 3 months	207,111	138,279
4 to 6 months	34,388	–
	241,499	138,279

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Current		
Bank loans-secured	130,348	72,686
Bank loans-unsecured	149,089	6,962
	279,437	79,648
Non-current		
Bank loans-secured	138,698	183,986
Bank loans-unsecured	21,851	28,370
	160,549	212,356
	439,986	292,004

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. SHARE CAPITAL

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Authorised:		
20,000,000,000 (31 December 2009: 20,000,000,000) ordinary share of HK\$0.01 each	200,000	200,000
Issued and fully paid:		
2,096,984,000 (31 December 2009: 2,059,084,000) ordinary shares of HK\$0.01 each	20,970	20,591

During the six months ended 30 June 2010, the movements in share capital were as follows:

- (a) The subscription rights attached to 23,108,000 share options were exercised at the subscription price of HK\$0.4615 per share, resulting in the issue of 23,108,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$10,664,000.
- (b) The subscription rights attached to 5,188,000 share options were exercised at the subscription price of HK\$1.415 per share, resulting in the issue of 5,188,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$7,341,000.
- (c) The subscription rights attached to 2,284,000 share options were exercised at the subscription price of HK\$0.674 per share, resulting in the issue of 2,284,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$1,539,000.
- (d) The subscription rights attached to 7,320,000 share options were exercised at the subscription price of HK\$0.397 per share, resulting in the issue of 7,320,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$2,906,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. SHARE OPTION SCHEME

Movements of the share options (the "Options") granted during the six months ended 30 June 2010 were as follows:

Name or category of participant	Number of share options						At 30 June 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 January 2010	Grant during the period	Exercised during the period	Expired during the period	Forfeited during the period					
Employees										
In aggregate – granted on 27 July 2006	16,968,000	–	15,568,000	–	–	1,400,000	27-07-06	27-07-06 to 26-07-10	0.4615	
In aggregate – granted on 27 July 2006	3,316,000	–	1,540,000	–	–	1,776,000	27-07-06	27-07-07 to 26-07-11	0.4615	
In aggregate – granted on 18 September 2007	15,736,000	–	5,140,000	–	–	10,596,000	18-09-07	18-09-08 to 17-09-12	1.415	
In aggregate – granted on 18 September 2007	3,264,000	–	48,000	–	–	3,216,000	18-09-07	18-09-10 to 17-09-14	1.415	
In aggregate – granted on 20 May 2008	12,464,000	–	2,284,000	–	–	10,180,000	20-05-08	20-05-09 to 19-05-13	0.674	
In aggregate – granted on 20 May 2008	3,856,000	–	–	–	–	3,856,000	20-05-08	20-05-10 to 19-05-14	0.674	
In aggregate – granted on 20 May 2008	11,928,000	–	–	–	–	11,928,000	20-05-08	20-05-11 to 19-05-15	0.674	
In aggregate – granted on 20 May 2008	3,488,000	–	–	–	–	3,488,000	20-05-08	20-05-14 to 19-05-18	0.674	
In aggregate – granted on 27 Feb 2009	5,568,000	–	1,000,000	–	–	4,568,000	27-02-09	27-02-10 to 26-02-14	0.397	
In aggregate – granted on 27 Feb 2009	13,916,000	–	3,764,000	–	–	10,152,000	27-02-09	27-02-10 to 26-02-12	0.397	
In aggregate – granted on 27 Feb 2009	4,128,000	–	2,508,000	–	–	1,620,000	27-02-09	27-02-10 to 26-02-11	0.397	
In aggregate – granted on 27 Feb 2009	800,000	–	–	–	–	800,000	27-02-09	27-02-13 to 26-02-17	0.397	
In aggregate – granted on 30 Jun 2010	–	16,904,000	–	–	–	16,904,000	30-06-10	28-06-11 to 27-06-15	3.24	
In aggregate – granted on 30 Jun 2010	–	19,704,000	–	–	–	19,704,000	30-06-10	28-06-12 to 27-06-16	3.24	
In aggregate – granted on 30 Jun 2010	–	15,772,000	–	–	–	15,772,000	30-06-10	28-06-13 to 27-06-17	3.24	
In aggregate – granted on 30 Jun 2010	–	9,500,000	–	–	–	9,500,000	30-06-10	28-06-14 to 27-06-18	3.24	
Directors										
In aggregate – granted on 27 July 2006	6,000,000	–	6,000,000	–	–	–	27-07-06	27-07-06 to 26-07-10	0.4615	
In aggregate – granted on 18 September 2007	1,000,000	–	–	–	–	1,000,000	18-09-07	18-09-08 to 17-09-12	1.415	
In aggregate – granted on 20 May 2008	3,000,000	–	–	–	–	3,000,000	20-05-08	20-05-10 to 19-05-14	0.674	
In aggregate – granted on 27 Feb 2009	768,000	–	48,000	–	–	720,000	27-02-09	27-02-10 to 26-02-14	0.397	
In aggregate – granted on 27 Feb 2009	4,000,000	–	–	–	–	4,000,000	27-02-09	27-02-13 to 26-02-17	0.397	
In aggregate – granted on 30 Jun 2010	–	4,000,000	–	–	–	4,000,000	30-06-10	28-06-14 to 27-06-18	3.24	
Subtotal	110,200,000	65,880,000	37,900,000	–	–	138,180,000				
Business consultants	8,000,000	–	–	–	–	8,000,000	18-09-07	18-09-10 to 17-09-14	1.415	
Total	118,200,000	65,880,000	37,900,000	–	–	146,180,000				

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. SHARE OPTION SCHEME (continued)

* *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.*

Pursuant to the share option scheme (the “Share Option Scheme”) adopted by the Company on 21 November 2004, certain classes of participants (including employees, consultants, advisers, suppliers or customers of the Group) may be granted Options to subscribe for the shares of the Company.

On 30 June 2010, the Company granted Options for the subscription of an aggregate of 65,880,000 shares pursuant to the terms of the Share Option Scheme. Each Option shall entitle the holder of the Option (the “Grantee”) to subscribe for one Share upon exercise of such Option at an exercise price of HK\$3.24 per share as follows:

Among the total 65,880,000 Options, 2,000,000 Options were granted to each of Mr. Li Bin and Mr. Li Wang, who are the executive Directors of the Company.

The Grantees shall exercise the Options during the following vesting period:

- (a) The Grantees who were granted in aggregate 16,904,000 Options shall exercise the Options during a period commencing on 28 June 2011 and expiring on 27 June 2015.
- (b) The Grantees who were granted in aggregate 19,704,000 Options shall exercise the Options during a period commencing on 28 June 2012 and expiring on 27 June 2016.
- (c) The Grantees who were granted in aggregate 15,772,000 Options shall exercise the Options during a period commencing on 28 June 2013 and expiring on 27 June 2017.
- (d) The Grantees who were granted in aggregate 13,500,000 Options shall exercise the Options during a period commencing on 28 June 2014 and expiring on 27 June 2018.

Outstanding and unexercised Options at the end of each vesting period may be rolled over to the next vesting period(s) and exercisable during the relevant option period.

21. 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;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE AWARD PLAN (continued)

- (b) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the Directors out of the Company's resources; and
- (c) such shares which remain unvested and revert to the Trustee by reason of a lapse of an award.

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

During the reporting period, the Trustee did not purchase any ordinary shares of the Company, and 16,820,000 purchased shares were awarded.

22. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to three 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.

As at 30 June 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within one year	19,651	21,721
In the second to third years, inclusive	6,951	13,639
	26,602	35,360

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within one year	1,446	3,583
In the second year	265	1,273
	1,711	4,856

23. COMMITMENTS

In addition to the operating lease commitments detailed in Note 22 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Contracted, but not provided for:		
– Patents and licences	–	–
– Land and buildings	–	25,658
	–	25,658

24. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS BY CATEGORY

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

FINANCIAL ASSETS – LOANS AND RECEIVABLES

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trade receivables	180,720	294,378
Bills receivable	92,908	45,644
Financial assets included in prepayments, deposits and other receivables	46,510	17,588
Pledged time deposits	464,216	186,737
Cash and cash equivalents	467,232	251,401
	1,251,586	795,748

FINANCIAL LIABILITIES – FINANCIAL LIABILITIES AT AMORTISED COST

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trade payables	317,948	369,870
Bills payable	241,499	138,279
Financial liabilities included in other payables and accruals	320,850	186,556
Interest-bearing bank and other borrowings	439,986	292,004
Due to an associate	–	7,413
	1,320,283	994,122

26. EVENT AFTER THE REPORTING PERIOD

Neither the Group nor the Company had any significant event after the end of reporting period.

27. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of Directors on 6 August 2010.