



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)

Interim Report 2012

WIRELESS COMMUNICATIONS
UNLIMITED IN THE FUTURE



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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 (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 酷派 Coolpad smartphone sets, mobile data platform system, and value-added business operations in the People’s Republic of China (the “PRC” or the “Mainland China”). Yulong Shenzhen mainly provides its Coolpad products for enterprises, government and mobile operators as well as individual consumers in the PRC.

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

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

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

REGISTERED OFFICE

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COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. JIANG Chao, ACCA

AUDIT COMMITTEE & REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. JIANG Chao
Mr. LI Wang

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

COMPANY WEBSITES

www.chinawireless.cn

STOCK CODE

2369

FINANCIAL HIGHLIGHTS

The financial data below are extracted from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2012 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June		
	2012 (HK\$'000) (Unaudited)	2011 (HK\$'000) (Unaudited)	Year-on-year change (%)
Revenue	6,217,957	3,027,298	+105.4%
Profit before tax	178,142	129,925	+37.1%
Tax	26,081	10,822	+141.0%
Net profit attributable to owners of the Company	152,518	118,981	+28.2%
Basic earnings per share	7.10 cents	5.33 cents	+33.2%
Diluted earnings per share	7.02 cents	5.20 cents	+35.0%
Proposed interim dividend per ordinary share	–	1.0 cent	(100%)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 June 2012 (HK\$'000) (Unaudited)	At 31 December 2011 (HK\$'000) (Audited)
Non-current assets	1,273,104	1,151,664
Current assets	6,199,940	6,379,541
Non-current liabilities	143,942	143,212
Current liabilities	5,058,976	5,198,303
Net assets	2,270,126	2,189,690
Cash and cash equivalents	1,435,413	1,058,857

MANAGEMENT DISCUSSION & ANALYSIS

TOTAL REVENUE HK\$6,218.0 MILLION

The financial data below are extracted from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2012 prepared under HKFRSs. The following discussion and analysis should be read in conjunction with the Group's condensed consolidated financial statements and its notes.

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
REVENUE		
3G Coolpad smartphone	6,184,157	2,962,395
2G Coolpad smartphone	–	52,455
Other products	33,800	12,448
Total revenue	6,217,957	3,027,298
Cost of sales	(5,474,001)	(2,519,531)
Gross profit	743,956	507,767
Other income and gains	89,390	65,523
Selling and distribution costs	(254,418)	(190,530)
Administrative expenses	(371,671)	(230,109)
Other expenses	(4,941)	(7,536)
Finance costs	(24,491)	(15,169)
Share of profit/(loss) from associates	317	(21)
Profit before tax	178,142	129,925
Income tax expense	(26,081)	(10,822)
Profit for the period	152,061	119,103
Earnings per share – basic	7.10 cents	5.33 cents
– diluted	7.02 cents	5.20 cents

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT TYPES

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

Revenues	Six months ended 30 June			
	2012		2011	
	Revenue HK\$ million (Unaudited)	% of total revenue	Revenue HK\$ million (Unaudited)	% of total revenue
3G Coolpad smartphone	6,184.2	99.5%	2,962.4	97.9%
2G Coolpad smartphone	–	–	52.5	1.7%
Other products	33.8	0.5%	12.4	0.4%
Total	6,218.0	100%	3,027.3	100%

The Group's unaudited revenue for the six months ended 30 June 2012 amounted to HK\$6,218.0 million, representing a remarkable growth of 105.4% as compared with HK\$3,027.3 million for the six months ended 30 June 2011. The significant increase in revenue during the 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, and the increasing market share of Coolpad smartphone in Mainland China during the first half of 2012.

The revenue from 3G Coolpad smartphone increased by 108.8% to HK\$6,184.2 million for the six months ended 30 June 2012 as compared with HK\$2,962.4 million for the corresponding period in 2011. Revenue contribution from this segment surged from 97.9% in the first half of 2011 to 99.5% in the first half of 2012. The significant increase in revenue of 3G Coolpad smartphone was primarily attributable to the high quality and reasonable price of Coolpad new smartphone models and the increase of market demands of the 3G smartphone during the period. So far, the Group's product lines have covered all range of 3G networks, including TD-SCDMA, CDMA-EVDO as well as WCDMA network. The Group ceased to sell 2G smartphone models during the current period. Therefore, the sales of 3G Coolpad smartphone have already become the Group's main revenue stream.

The revenue from other products was primarily generated from the sales of Coolpad smartphone's accessories. The revenue from other products increased by HK\$21.4 million, or 172.6%, to HK\$33.8 million for the six months ended 30 June 2012 as compared with HK\$12.4 million for the corresponding period in 2011. The increase in the revenue from other products during the period was mainly attributable to the increase in the sales of Coolpad smartphone's accessories.

MANAGEMENT DISCUSSION & ANALYSIS

GROSS PROFIT

	Six months ended 30 June			
	2012		2011	
Gross Profit	Gross profit HK\$ million (Unaudited)	Gross profit margin	Gross profit HK\$ million (Unaudited)	Gross profit margin
3G Coolpad smartphone	737.8	11.9%	507.8	17.1%
2G Coolpad smartphone	–	–	(3.9)	(7.4%)
Other products	6.2	18.3%	3.9	31.5%
Total	744.0	12.0%	507.8	16.8%

The Group's overall gross profit for the six months ended 30 June 2012 increased to HK\$744.0 million, representing an increase of 46.5% as compared with HK\$507.8 million for the corresponding period in 2011. Its overall gross profit margin dropped to 12.0% in the period, down 4.8% as compared with 16.8% in the corresponding period of 2011. The decrease in gross profit margin was primarily attributable to the intensifying competition within the handset industry during the period.

OTHER INCOME AND GAINS

Other income and gains of the Group increased by HK\$23.9 million, or 36.5%, to HK\$89.4 million for the six months ended 30 June 2012 as compared with HK\$65.5 million for the corresponding period in 2011. This slight increase of HK\$23.9 million was primarily generated from the increase of the Group's rental income, governmental and other subsidies.

SELLING AND DISTRIBUTION COSTS

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Selling and distribution costs (HK\$ million)	254.4	190.5
As a percentage of total revenue	4.1%	6.3%

Selling and distribution costs of the Group for the six months ended 30 June 2012 increased by HK\$63.9 million to HK\$254.4 million from HK\$190.5 million for the corresponding period in 2011. The net increase of HK\$63.9 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 4.1% in the first half of 2012 as compared with 6.3% in the corresponding period of 2011. The net decrease of 2.2% 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 period.

MANAGEMENT DISCUSSION & ANALYSIS

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Administrative expenses (HK\$ million)	371.7	230.1
As a percentage of total revenue	6.0%	7.6%

Administrative expenses increased by HK\$141.6 million to HK\$371.7 million for the six months ended 30 June 2012 from HK\$230.1 million for the corresponding period in 2011. The net increase of HK\$141.6 million was primarily attributable to the increased R&D expenditures, as the headcounts of R&D personnel increased. As a percentage of total revenue, administrative expenses dropped by 1.6% to 6.0% in the first half of 2012 as compared with 7.6% in the corresponding period of 2011. The net decrease of 1.6% as a percentage of total revenue primarily indicated the economy of scale achieved by the Group amid its continuous business expansion and the efficient control of the administrative expenses.

INCOME TAX EXPENSE

For the six months ended 30 June 2012, the Group's income tax expenses increased to HK\$26.1 million, representing an increase of HK\$15.3 million as compared with HK\$10.8 million for the corresponding period in 2011. The increase in the current income tax expense was primarily due to the increase of the Group's profit before tax and increase in tax rate during the period.

NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Net profit attributable to owners of the Company amounted to HK\$152.5 million, for the six months ended 30 June 2012 as compared with HK\$119.0 million, for the six months ended 30 June 2011. The increase in net profit attributable to owners of the Company by HK\$33.5 million in the first half of 2012 reflected primarily an increase in the gross profit, which was partially offset by an increase in the Group's selling and distribution costs, administrative expenses and income tax expenses.

LIQUIDITY AND FINANCIAL RESOURCE

For the six months ended 30 June 2012, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 61.8% (31 December 2011: 65.6%). The decrease was mainly attributable to the increase of capital as a result of increased net profit during the 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 30 June 2012 amounted to HK\$1,435.4 million, while it was HK\$1,058.9 million as at 31 December 2011.

MANAGEMENT DISCUSSION & ANALYSIS

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities.

PLEGGED OF ASSETS

As at 30 June 2012, the following assets of the Group were used to secure certain bank borrowings of the Group: (i) investment properties of approximately HK\$103.0 million (31 December 2011: HK\$104.0 million); (ii) time deposits of approximately HK\$390.0 million (31 December 2011: HK\$325.0 million). As at 30 June 2012, the Group's time deposits of approximately HK\$387.0 million were also used to secure bills payable (31 December 2011: HK\$689.4 million).

BUSINESS REVIEW

Since the Group expanded the main part of the business from the high-end smartphone niche market into the mass market, and captured the opportunity of popularizing the third-generation(3G) network, the sales scale and the revenue of the Group kept increasing, and achieved a new record during the period, even though there were heavier competitions in the 3G smartphone market. Operating revenue of the Group for the six months ended 30 June 2012 reached HK\$6,218.0 million, increased by HK\$3,190.7 million or 105.4% compared with that of the corresponding period of 2011. Meanwhile, net profit attributable to owners of the Company increased by HK\$33.5 million, or 28.2%, to HK\$152.5 million for the six months ended 30 June 2012, compared with that of the corresponding period of 2011. The basic earnings per share for the six months ended 30 June 2012 increased to HK7.10 cents from HK5.33 cents of the corresponding period of last year. The Group's overall average selling price ("ASP") increased to HK\$733.7 in the first half of 2012 from HK\$655.0 for the corresponding period in 2011. The rise of the overall ASP was primarily because of the more new 3G smartphone models launched during the period.

The three domestic telecommunications carriers in Mainland China (China Telecom, China Mobile, and China Unicom) kept on popularizing the 3G network, accompanied with more affordable monthly fee and attractive subsidies for purchasing the 3G smartphone. As a result, the net-added 3G new users held a strong momentum of an increase during the period, and the demands of the market for the 3G smartphone were more enlarged. Benefiting from this and the expansion of the market demands during the period, and depending on a series of richer, more competitive products, the Group achieved larger 3G smartphone market share, and the brand recognition of the Group's 酷派 Coolpad was improved substantially during the period, through vigorously exploring the sales channel and market space, aggressively enlarging the sales scale.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW (continued)

The Group deeply researched and developed smartphone based on the code-opened operating system Android platform, and retained the advantages of these traditional smart genes owned by 酷派 Coolpad (the individual applications such as dual-mode dual-working, private model, better handwriting identification, three-step contacts search). Except those traditional smart genes, the Group also invented and added the innovative 酷派 Coolpad genes (the new applications such as Coolcloud platform, Coolmart application store), which had brought Coolpad users better smartphone user experience. The products and the R&D department could accelerate the R&D cycle of the new products and the rhythm of coming into the market for the new ones, through the advantage of leading technology, and the mature Android differentiated platform containing the Coolpad genes, which could help launch more new products with high quality in the near future. For the six months ended 30 June 2012, the Group had launched five series (including the Magview series, the long standby time series, the dual panel series, the smart cool series, and the play cool series) and more than fifteen new products successfully, which were deeply adored among the customers.

In the first half of 2012, the Group launched the third generation one thousand yuan smartphones fast, covering the three kinds of the 3G network in Mainland China. These products were deeply adored by customers for their high quality and reasonable price, so they were sold well in domestic market and were also exported to the overseas markets. Coolpad 7260 was one of the best selling smartphones based on the WCDMA network, with 4.0 inch big touch screen, fashionable style. Coolpad 5832 was the cheapest dual-mode dual-working smartphone, which the young people and the students were very satisfied with. Coolpad 7728 was the first dual core mid-end smartphone, which was popular by its excellent performance and the affordable price to most of the customers. Coolpad 8180 was one TD-SCDMA high cost/performance smartphone, by which the users could enjoy the online TV free.

The Group not only got more market share and earned higher reputation of the Coolpad brand in the smartphone markets of Mainland China etc by fast, accurate and resolute execution capability, but also achieved a breakthrough development in the North America markets. Apart from strengthening the cooperation with the domestic telecommunications carriers, the Group also set up a long term strategy relationship with some qualified distributors and agents to achieve multi-sales channels. The Group established the Coolpad 3G outlets in several super markets in Mainland China, or the flagship shops owned by the Group, so that its users could enjoy the wonderful Coolpad smartphone and services to promote the 酷派 Coolpad brand recognition of the Group effectively. The Group had researched and developed the next generation network 4G technology smartphone based-on FDD-LTE technology, and planned to enter into the North America market to seize the commanding point of new technology, through cooperating with the local telecommunications carriers to penetrate into the market. In February 2012, the Group firstly attended the seventh Mobile World Congress (MWC) held in Barcelona, Spanish officially, and 酷派 Coolpad brand recognition was improved a lot in the global smartphone market by several excellent Coolpad products.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW (continued)

As the number of the smartphone users was increasing constantly, the demands of the security and the secrecy for the users' data were also becoming more and more important, which brought more tests to the companies on the R&D contribution of the smartphone security. The Group had been emphasizing the security and the secrecy of the users' data since the beginning of establishment, and the private model in 酷派 Coolpad smartphone could make sure the usage of the users' personal data more reassuring. The speed of the newly launched Coolcloud 3.0 version was more faster than that of the Coolcloud 2.0 version, which could help the users synchronize the data quicker, and make the data synchronization of the smartphone more effectively, so the Group was aggressively promoting the core platform of the mobile internet based on the smartphone belonged to the Group.

As the Group expanded the product mix into the mass market, the sales scale continued to be increasing, the market share of 酷派 Coolpad got higher every month gradually, and several 酷派 Coolpad new products of the Group were popular among the customers. The joint efforts from every business section and the IT system were indispensable to the gratifying achievements and the scale increase of the Group. The new SAP system was put into use officially in April this year, which made the integrated information technology systems of the Group more effectively, and provided a strong management system support for the scale increase of the Group in the future. In the phase of popularizing the mid- and low-end smartphone, even though there were more competitions in the market, the Group continued to emphasize the improvement of the whole operating efficiency, and optimize the processes, in order to minimize the ratio of the administrative expenses and the sales and distribution costs to the revenue. The capacity of the factory located in Dongguan City continued to be improved, to satisfy the scale increase and the products demands of the Group completely. The product quality and the production cost controls were also assured, depending on the improvements of the infrastructure for the product testing and assembly.

BUSINESS OUTLOOK

As the popularization of the 3G network still has a long way to go, with the high brand recognition of the 酷派 Coolpad in Mainland China, the Group is going to enlarge the sales scale, and improve the market share further, which could help promote the lasting increase of the number of the 3G network users. The Group will hold the notion of the technology innovation, launch more differentiated products, improve the capability of the market and the distribution gradually, and improve the operating efficiency in the future. While keeping the dominant position in domestic 3G smartphone market, the Group plans to speed up the expansion of the overseas markets, in order to become the leading brand in the world with the core competitiveness.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OUTLOOK (continued)

The competition of the R&D and the user experience of the products will still be the core competition of the smartphone in the future. The excellent R&D team of the Group will pursue the technology innovation, concentrate on improving the user experience of the new 酷派 Coolpad products, and apply more patents mainly distributed in software, hardware, and the wireless telecommunication network etc. The Android smartphone carrying on the Coolpad traditional genes and other differentiated features, will make Coolpad brand more competitive, while the Android system is the most popular one in the market at present. The Coolcloud platform, based on the cloud-computing cloud-storage technology, will be poured into more practical, securable functions, and become another core competition ability of the Group in the future of the wireless internet development. The useful functions, such as Coolweather, Coolmedia, Coolbook, Coolnav, will bring more convenient life style to the Coolpad users. While cooperating with telecommunications carriers deeply, the Group will prepare for smartphones based on the next generation (TD-LTE, FDD-LTE technology) network, and develop the near field payment smartphone based on the China standard. The fourth generation 4G network technology will be the next major development direction of the telecommunications carriers, along with the subsidy on the smartphones, the Group will tightly grasp the historic chance brought by the 4G network, while guaranteeing the scale increase of the 3G smartphone.

Technology innovation will still be the core development of the Group in the future, and be the main point of the R&D team. While persisting on the technology innovation, the Group will also lower the cost of the components effectively depending on the scale advantage of the shipments. On the hardware point, the Group will communicate with the components suppliers deeply, and launch more wonderful products on the condition of controlling its cost. For example, the Qualcomm Reference Design (QRD) solution, provided by Qualcomm Incorporated, one of the chipset suppliers of the Group, could improve the R&D efficiency significantly, lessen the R&D cost, and speed up the rhythm of the new products coming into the market. On the software of the system platform point, the Group will continue to develop the new smartphones based on Android 4.0 version (Ice Cream Sandwich, ICS), prepare on the latest version Android 4.1, and test the other smartphone operating systems, in order to build the multi-platforms of the Coolpad products.

The Group will launch much richer 3G products based on the three kinds of network standards (CDMA-EVDO, TD-SCDMA, WCDMA), and more dual-mode dual-working smartphone with different styles. The Group plans to launch more than 30 new models in the full year of 2012, whose user interface (UI) will be more friendly, industry design (ID) will be more advanced, and colors will be more for the customers to choose. In the Magview series of the high-end smartphone, the Group will launch the third generation flagship series Magview S, which will be equipped with higher spec of the chipset, more friendly and convenient user interaction. In the other series of the new products, the whole hardware spec, the software service, and the ID will be launched with more promotion and more surprise. Especially, as for the R&D work of the smartphone based on the FDD-LTE network standard, the Group is going to launch this one in the second half of 2012 in North America, which states a new milestone of the Group on the R&D capacity and the global market expansion.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OUTLOOK (continued)

The Group will keep focusing on the customized smartphone market for the telecommunications carriers, and endeavor to develop the direct and indirect open channels, in order to enlarge the clients' base and improve the brand recognition of Coolpad. The Group will also establish more Coolpad flagship stores in the one-tier and the two-tier cities of Mainland China as a communication paradise for the Coolpad users, which also could help the new Coolpad users to understand the wonderful features of Coolpad smartphone. The Group will not only consolidate the market share of the smartphone in Mainland China, but also expand the overseas markets.

Looking ahead, even though the present 3G smartphone mass market is still highly competitive, the Group believes that the scale increase will get a higher achievement, depending on the well-known brand recognition, the good relationship with the suppliers, and the high quality of the client base. As most of the Group's products are customized for the telecommunications carriers, the price of the products will be influenced by the subsidy plans and the 3G promotion policies. At the same time, the carriers channel will be more open than before, the trend for the smartphone terminal competition seems hardly to be lessened at present, more competitors will enter into the 3G market, and the competition will be intensifying in the future, so the gross profit margin and ASP will continuously fall influenced by those factors. But the Group will execute the strict cost control, optimize the internal processes, improve the whole operating efficiency, decrease the operating cost, and strengthen the control of the sales and the R&D expenses, in order to decrease the risk of competition and decrease gross profit margin.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. Exchange rate fluctuations between RMB and USD may affect the Group's performance and asset value. The Group had not entered into any derivative contracts to hedge against the risk for the six months ended 30 June 2012.

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.

MANAGEMENT DISCUSSION & ANALYSIS

INTEREST RATE RISK

The risk in interest rate concerning the Group primarily related to its short-term and long-term 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 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 costs for the six months ended 30 June 2012 amounted to approximately HK\$220.8 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 2012.

MATERIAL ACQUISITION AND DISPOSAL DURING THE PERIOD

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

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

During the six months ended 30 June 2012, the Company repurchased a total of 30,028,000 of its own ordinary shares on the Stock Exchange at the aggregate consideration of approximately HK\$37.6 million. 18,768,000 shares in the repurchased shares were cancelled by the Company upon such repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase was charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the condensed consolidated statement of changes in equity. The Company considered that it is the best way of enhancing shareholder value and that it is in the best interest of the shareholders to return a substantial part of the surplus funds to them.

SHARE OPTION SCHEME

The Company has adopted a share option scheme by a written resolution of all shareholders of the Company on 2 November 2004 (the "Share Option Scheme"). Details of options granted under the Share Option Scheme are disclosed in Note 17 to the condensed consolidated financial statement below.

MANAGEMENT DISCUSSION & ANALYSIS

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

As at 30 June 2012, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (the "Model Code"), for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the 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 director	Notes	Directly Beneficially Owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a trust	Share Option	Total	Approximate percentage of the Company's issued share capital
Mr. GUO Deying	1 & 2	-	831,171,248	11,628,000	-	831,171,248	-	842,799,248	39.49
Mr. JIANG Chao	3	-	-	-	11,628,000	-	-	11,628,000	0.54
Mr. LI Bin	4	-	-	-	-	-	7,348,000	7,348,000	0.34
Mr. LI Wang	4	5,020,000	-	-	-	-	5,800,000	10,820,000	0.51
Ms. YANG Xiao (Resigned on 18 June 2012)	1 & 2	-	831,171,248	11,628,000	-	831,171,248	-	842,799,248	39.49
Mr. CHAN King Chung	4	96,000	-	-	-	-	96,000	192,000	0.01
Mr. HUANG Dazhan	4	48,000	-	-	-	-	96,000	144,000	0.01
Mr. XIE Weixin	4	-	-	-	-	-	192,000	192,000	0.01
Mr. YANG Xianzu	4	-	-	-	-	-	192,000	192,000	0.01

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

Notes:

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

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

2. Mr. GUO was taken to be interested in the 11,628,000 shares held by Wintech Consultants Limited as he was one out of the three directors of Wintech Consultants Limited and the other two directors were accustomed to act in accordance with Mr. GUO's direction.
3. Mr. JIANG Chao, an executive Director, was interested in the 11,628,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the China Wireless Share Award Plan.
4. The interests of these Directors in the underlying Shares are 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 2012, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company:

Name	Notes	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited ("Data Dreamland")	1	831,171,248	Beneficial owner	831,171,248	38.95
Barrie Bay Limited ("Barrie Bay")	2	831,171,248	Interest of controlled corporation	831,171,248	38.95
HSBC International Trustee Limited ("HSBC Trustee")	2	831,171,248	Trustee	831,171,248	38.95

Notes:

- 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 an unit trust which are 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.*
- 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 2012, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

MANAGEMENT DISCUSSION & ANALYSIS

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 for the six months ended 30 June 2012 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.

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 2012, 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 2012 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, 20 August 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
REVENUE	4	6,217,957	3,027,298
Cost of sales		(5,474,001)	(2,519,531)
Gross profit		743,956	507,767
Other income and gains	4	89,390	65,523
Selling and distribution costs		(254,418)	(190,530)
Administrative expenses		(371,671)	(230,109)
Other expenses		(4,941)	(7,536)
Finance costs	6	(24,491)	(15,169)
Share of profit/(loss) of associates		317	(21)
PROFIT BEFORE TAX	5	178,142	129,925
Income tax expense	7	(26,081)	(10,822)
PROFIT FOR THE PERIOD		152,061	119,103
OTHER COMPREHENSIVE INCOME			
Surplus on revaluation of buildings, net of tax		–	143
Exchange differences on translation of foreign operations		(7,395)	30,310
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(7,395)	30,453
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		144,666	149,556
PROFIT FOR THE PERIOD			
Attributable to:			
Owners of the Company		152,518	118,981
Non-controlling interests		(457)	122
		152,061	119,103
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD			
Attributable to:			
Owners of the Company		145,123	149,434
Non-controlling interests		(457)	122
		144,666	149,556
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		7.10 cents	5.33 cents
Diluted		7.02 cents	5.20 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		541,980	527,097
Investment properties		336,084	334,952
Prepaid land lease payments		155,758	110,222
Intangible assets		148,066	112,491
Investments in associates		51,822	34,523
Available-for-sale investments		24,088	11,102
Other non-current assets		2,474	8,374
Deferred tax assets		12,832	12,903
Total non-current assets		1,273,104	1,151,664
CURRENT ASSETS			
Inventories		2,304,602	1,668,545
Trade receivables	10	1,119,208	1,571,749
Bills receivable	11	80,299	685,276
Prepayments, deposits and other receivables		481,019	314,452
Due from directors		1,437	655
Pledged time deposits		777,962	1,080,007
Cash and cash equivalents		1,435,413	1,058,857
Total current assets		6,199,940	6,379,541
CURRENT LIABILITIES			
Trade payables	12	2,070,401	1,377,469
Bills payable	13	1,680,815	1,615,658
Other payables and accruals		843,332	981,719
Derivative financial instruments	14	–	8,377
Interest-bearing bank borrowings	15	433,737	1,190,094
Tax payable		30,691	24,986
Total current liabilities		5,058,976	5,198,303

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
NET CURRENT ASSETS		1,140,964	1,181,238
TOTAL ASSETS LESS CURRENT LIABILITIES		2,414,068	2,332,902
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	78,508	67,843
Deferred tax liabilities		59,301	60,838
Other non-current liabilities		6,133	14,531
Total non-current liabilities		143,942	143,212
Net assets		2,270,126	2,189,690
EQUITY			
Equity attributable to owners of the Company			
Issued capital	16	21,340	21,474
Shares held for the Share Award Plan	18	(241)	(321)
Reserves		2,244,664	2,121,007
Proposed final dividend		–	43,005
		2,265,763	2,185,165
Non-controlling interests		4,363	4,525
Total equity		2,270,126	2,189,690

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
At 1 January – equity attributable to owners of the Company	2,185,165	1,416,607
Total comprehensive income for the period attributable to owners of the Company	145,123	149,434
Issue of shares, including share premium	3,084	5,487
Equity-settled share option arrangements	12,516	8,559
Vesting of awarded shares	80	–
Transfer to share premium account from share option reserve	1,352	2,399
Transfer from share option reserve to share premium account	(1,352)	(2,399)
Share award reserve from shares awarded under the Share Award Plan	460	–
Placement of shares	–	669,111
Repurchase of shares	(37,625)	(117,122)
Final 2011 dividend declared	(43,005)	–
Difference between the proposed final 2011 dividend and the actual dividend paid	(35)	–
Final 2010 dividend declared	–	(112,959)
At 30 June – equity attributable to owners of the Company	2,265,763	2,019,117
Non-controlling interests	4,363	4,006
At 30 June – total equity	2,270,126	2,023,123

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow/(outflow) from operating activities	1,339,163	(142,090)
Net cash outflow from investing activities	(126,754)	(606,364)
Net cash inflow/(outflow) from financing activities	(841,417)	1,131,875
Net increase in cash and cash equivalents	370,992	383,421
Cash and cash equivalents at beginning of the period	1,058,857	641,895
Effects of foreign exchange rate changes, net	5,564	18,618
Cash and cash equivalents at end of the period	1,435,413	1,043,934
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	1,435,413	620,536
Time deposits with initial term of three months or less	–	423,398

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.

The Group is a wireless solution and equipment provider in Mainland China. During the period, the Group continued to focus on the production and sale of smartphones.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Data Dreamland Holding Limited, 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 2012 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 (the “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 2011.

2.2 Changes in accounting policy and disclosures

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 2011 except for the first time adoption of the following new standards and interpretations:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Issued but not yet effective Hong Kong financial reporting standards

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
HKFRS 13	<i>Fair Value Measurement</i> ²
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Items of Other Comprehensive Income</i> ¹
HKAS 19 (as revised in 2011)	<i>Employee Benefits</i> ²
HKAS 27 (as revised in 2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i> ²
HKAS 32 Amendments	Amendments to HKAS 32: <i>Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ²
Annual Improvements Project	Annual Improvements 2009-2011 Cycle ²
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i> ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

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

3. OPERATING SEGMENT INFORMATION

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION (continued)

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

	Mobile phone HK\$'000	Property investment HK\$'000	Total HK\$'000
Six months ended 30 June 2012 (Unaudited)			
Segment revenue:			
Sales to external customers	6,217,957	–	6,217,957
Other revenue and gains	57,336	15,289	72,625
Total	6,275,293	15,289	6,290,582
Segment results	175,941	14,551	190,492
Reconciliation:			
Interest income			16,765
Finance costs			(24,491)
Share of profit of associates			317
Corporate and other unallocated expenses			(4,941)
Profit before tax			178,142
Six months ended 30 June 2011 (Unaudited)			
Segment revenue:			
Sales to external customers	3,027,298	–	3,027,298
Other revenue and gains	–	11,617	11,617
Total	3,027,298	11,617	3,038,915
Segment results	122,268	10,952	133,220
Reconciliation:			
Interest income			19,431
Finance costs			(15,169)
Share of loss of an associate			(21)
Corporate and other unallocated expenses			(7,536)
Profit before tax			129,925
Segment assets			
At 30 June 2012 (Unaudited)	4,810,845	360,082	5,170,927
At 31 December 2011 (Audited)	4,981,549	352,264	5,333,813

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, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and trade discounts, and after elimination of all intra-group transactions.

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

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Revenue		
Sale of mobile phones	6,217,957	3,027,298
Other income		
Gross rental income	15,289	11,617
Bank interest income	16,765	19,431
Government grants and subsidies*	43,479	9,479
Others	13,857	24,996
	89,390	65,523
	6,307,347	3,092,821

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Cost of inventories sold	5,458,792	2,517,735
Depreciation	18,361	14,043
Amortisation of patents and licences*	5,126	4,917
Amortisation of prepaid land lease payments	921	769
Research and development costs:		
Product development costs amortised*	13,401	10,482
Current year expenditure*	122,386	101,081
	135,787	111,563
Operating lease rental	10,362	6,045
Loss on disposal of items of property, plant and equipment	246	653
Impairment of trade receivables	–	338
Provision for inventories	15,209	1,796

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

6. FINANCE COSTS

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Interest on bank loans	24,491	15,169

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE

The Company is a tax exempted company registered in the Cayman Islands and conducts substantially all of its business through its subsidiaries established in Mainland China.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period.

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.

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Group:		
Current	26,010	11,175
Deferred	71	(353)
Total tax charge for the year	26,081	10,822

8. DIVIDENDS

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$0.01).

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

The calculation of basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$152,518,000 (six months ended 30 June 2011: HK\$118,981,000), and the weighted average number of ordinary shares of 2,147,042,505 in issue during the six months ended 30 June 2012 (six months ended 30 June 2011: 2,232,369,127).

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$152,518,000. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 25,262,308 assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	152,518	118,981

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,147,042,505	2,232,369,127
Effect of dilution – weighted average number of ordinary shares: share options	25,262,308	56,242,348
	2,172,304,813	2,288,611,475

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. TRADE RECEIVABLES

Sales of the Group's products are normally settled on a cash-on-delivery basis. However, in the cases of long-standing customers and those with a good repayment history, the Group may offer these customers with a credit period of 30 to 90 days. 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 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within 3 months	1,067,594	1,526,898
4 to 6 months	20,853	21,322
7 to 12 months	29,465	23,529
Over 1 year	1,296	1,662
	1,119,208	1,573,411
Less: Impairment	–	(1,662)
	1,119,208	1,571,749

11. BILLS RECEIVABLE

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Bills receivable	80,299	282,131
Bills receivable discounted with recourse	–	403,145
	80,299	685,276

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. BILLS RECEIVABLE (continued)

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within 3 months	80,299	282,131
4 to 12 months	–	403,145
	80,299	685,276

12. TRADE PAYABLES

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within 3 months	2,015,870	1,361,305
4 to 6 months	52,815	13,212
7 to 12 months	1,330	1,799
Over 1 year	386	1,153
	2,070,401	1,377,469

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. 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 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within 3 months	1,020,280	1,212,513
4 to 12 months	660,535	403,145
	1,680,815	1,615,658

14. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2012 liabilities HK\$'000 (Unaudited)	31 December 2011 liabilities HK\$'000 (Audited)
Forward currency contracts	-	7,228
Interest rate swaps	-	1,149
	-	8,377

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Current		
Bank loans – secured	184,987	341,070
Bank loans – unsecured	124,716	249,165
Bank loans – discounted bills with recourse	–	384,216
Bank loans – import and trust receipt loans	124,034	215,643
	433,737	1,190,094
Non-current		
Bank loans – secured	78,508	67,843
	512,245	1,257,937

16. SHARE CAPITAL

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Authorised:		
20,000,000,000 (31 December 2011: 20,000,000,000) ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid:		
2,134,035,000 (31 December 2011: 2,147,405,000) ordinary shares of HK\$0.01 each	21,340	21,474

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. SHARE CAPITAL (continued)

During the six months ended 30 June 2012, the movements in share capital were as follows:

- (a) The subscription rights attaching to 48,000 share options were exercised at the subscription price of HK\$1.415 per share, resulting in the issue of 48,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$67,920.
- (b) The subscription rights attaching to 3,222,000 share options were exercised at the subscription price of HK\$0.674 per share, resulting in the issue of 3,222,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$2,171,628.
- (c) The subscription rights attaching to 2,128,000 share options were exercised at the subscription price of HK\$0.397 per share, resulting in the issue of 2,128,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$844,816.
- (d) The Group had repurchased 30,028,000 shares in total for HK\$37,625,000 and cancelled 18,768,000 shares for the six months ended 30 June 2012.

17. 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. As at 30 June 2012, options to subscribe for all of the Company's shares under the Scheme were conditionally granted to 492 participants by the Company.

The weighted average share price at the date of exercise for share options exercised during the reporting period was HK\$1.417 per share (Six months ended 30 June 2011: HK\$3.414).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. SHARE OPTION SCHEME (continued)

Movements of the share options (the "Options") during the six months ended 30 June 2012 were as follows:

Name or category of participant	Number of share options					At 30 June 2012	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 January 2012	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Employees									
In aggregate – granted on 18 September 2007	8,586,000	–	48,000	–	640,000	7,898,000	18-09-07	18-09-08 to 17-09-12	1.415
In aggregate – granted on 18 September 2007	2,832,000	–	–	–	–	2,832,000	18-09-07	18-09-10 to 17-09-14	1.415
In aggregate – granted on 20 May 2008	7,556,000	–	1,998,000	–	1,388,000	4,170,000	20-05-08	20-05-09 to 19-05-13	0.674
In aggregate – granted on 20 May 2008	3,580,000	–	444,000	–	192,000	2,944,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 20 May 2008	11,256,000	–	780,000	–	1,128,000	9,348,000	20-05-08	20-05-11 to 19-05-15	0.674
In aggregate – granted on 20 May 2008	3,488,000	–	–	–	96,000	3,392,000	20-05-08	20-05-14 to 19-05-18	0.674
In aggregate – granted on 27 February 2009	3,488,000	–	560,000	–	336,000	2,592,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 February 2009	2,337,000	–	1,520,000	817,000	–	–	27-02-09	27-02-10 to 26-02-12	0.397
In aggregate – granted on 27 February 2009	–	–	–	–	–	–	27-02-09	27-02-10 to 26-02-11	0.397
In aggregate – granted on 27 February 2009	–	–	–	–	–	–	27-02-09	27-02-13 to 26-02-17	0.397
In aggregate – granted on 30 June 2010	16,904,000	–	–	–	5,164,000	11,740,000	28-06-10	28-06-11 to 27-06-15	3.24
In aggregate – granted on 30 June 2010	19,704,000	–	–	–	5,944,000	13,760,000	28-06-10	28-06-12 to 27-06-16	3.24
In aggregate – granted on 30 June 2010	15,772,000	–	–	–	2,660,000	13,112,000	28-06-10	28-06-13 to 27-06-17	3.24
In aggregate – granted on 30 June 2010	9,500,000	–	–	–	–	9,500,000	28-06-10	28-06-14 to 27-06-18	3.24
In aggregate – granted on 12 July 2011	50,344,000	–	–	–	–	50,344,000	12-07-11	12-07-12 to 11-07-16	1.678
In aggregate – granted on 12 July 2011	780,000	–	–	–	–	780,000	12-07-11	12-07-14 to 11-07-18	1.678
Directors									
In aggregate – granted on 27 July 2006	–	–	–	–	–	–	27-07-06	27-07-06 to 26-07-10	0.4615
In aggregate – granted on 18 September 2007	1,000,000	–	–	–	–	1,000,000	18-09-07	18-09-08 to 17-09-12	1.415
In aggregate – granted on 20 May 2008	2,748,000	–	–	–	–	2,748,000	20-05-08	20-05-10 to 19-05-14	0.674
In aggregate – granted on 27 February 2009	624,000	–	48,000	–	–	576,000	27-02-09	27-02-10 to 26-02-14	0.397
In aggregate – granted on 27 February 2009	4,000,000	–	–	–	–	4,000,000	27-02-09	27-02-13 to 26-02-17	0.397
In aggregate – granted on 30 June 2010	4,000,000	–	–	–	–	4,000,000	28-06-10	28-06-14 to 27-06-18	3.24
In aggregate – granted on 12 July 2011	1,400,000	–	–	–	–	1,400,000	12-07-11	12-07-12 to 11-07-16	1.678
Total	169,899,000	–	5,398,000	817,000	17,548,000	146,136,000			

* 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE AWARD PLAN

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

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

- (a) the Company’s shares which will be purchased by the Trustee on the Stock Exchange at such times and prices as may be considered by the Trustee to be appropriate by utilising the fund to be paid by the Company to the Trustee;
- (b) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the directors out of the Company’s resources; and
- (c) such shares which remain unvested and revert to the Trustee by reason of a lapse of an award.

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

During the reporting period, the Trustee awarded a total number of 400,000 (six months ended 30 June 2011: Nil) shares to an employee at nil consideration. The total costs of the related shares awarded during the reporting period was HK\$80,000.

At the end of the reporting period, the remaining 1,204,000 shares of the Company under the Share Award Plan have yet to be awarded.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. 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 five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 June 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within one year	21,760	28,014
In the second to fifth years, inclusive	10,232	9,884
	31,992	37,898

(b) As lessee

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within one year	7,462	8,724
In the second to third years, inclusive	4,029	3,437
	11,491	12,161

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19(b) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Contracted, but not provided for:		
Equipment	2,135	–
Land and buildings	5,621	6,494
	7,756	6,494

21. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
An associate:		
Purchase of raw materials	23,537	5,846

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel of the Group:

Compensation of the key management personnel of the Group is set out as follows:

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Salaries, allowances and benefits in kind	9,311	8,257
Pension scheme contributions	133	87
Equity-settled share option expense	1,568	1,036
Total compensation paid to the key management personnel	11,012	9,380

(c) Due from directors

Particulars of the amounts due from directors are as follows:

Name	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
	Mr. GUO Deying	699
Mr. JIANG Chao	120	8
Mr. LI Bin	3	330
Mr. LI Wang	615	–
	1,437	655

The amounts due from directors mainly represented advances to directors for business trips. The amounts due are unsecured, interest-free and have no fixed terms of repayment.

22. EVENT AFTER THE REPORTING PERIOD

The Group had no significant event after the reporting period.

23. APPROVAL OF THE FINANCIAL STATEMENTS

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