
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2010

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 1-33430

QIAO XING MOBILE COMMUNICATION CO., LTD.

(Exact name of Registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of Incorporation or Organization)

30th Floor, Tower A, Eagle Run Plaza, No. 26 Xiaoyun Road, Chaoyang District, Beijing 100016, People's Republic of China
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Exchange on which registered
Ordinary Shares, without par value	New York Stock Exchange, Inc.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2010:
53,016,292 Ordinary Shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

TABLE OF CONTENTS

<u>INTRODUCTION</u>	1
<u>FORWARD-LOOKING STATEMENTS</u>	2
<u>PART I</u>	
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	3
<u>Item 2. Offer Statistics and Expected Timetable</u>	3
<u>Item 3. Key Information</u>	3
<u>Item 4. Information on the Company</u>	19
<u>Item 4A. Unresolved Staff Comments</u>	29
<u>Item 5. Operating and Financial Review and Prospects</u>	29
<u>Item 6. Directors, Senior Management and Employees</u>	44
<u>Item 7. Major Shareholders and Related Party Transactions</u>	50
<u>Item 8. Financial Information</u>	51
<u>Item 9. The Offer and Listing</u>	52
<u>Item 10. Additional Information</u>	53
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	56
<u>Item 12. Description of Securities Other than Equity Securities</u>	57
<u>PART II</u>	
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	59
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	59
<u>Item 15T. Controls and Procedures</u>	59
<u>Item 16A. Audit Committee Financial Expert</u>	59
<u>Item 16B. Code of Ethics</u>	59
<u>Item 16C. Principal Accountant Fees and Services</u>	59
<u>Item 16D. Exemptions from The Listing Standards for Audit Committees</u>	60
<u>Item 16E. Purchases of Equity Securities by The Issuer and Affiliated Purchasers</u>	60
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	60
<u>Item 16G. Corporate Governance</u>	60
<u>PART III</u>	
<u>Item 17. Financial Statements</u>	61

[Item 18. Financial Statements](#)

61

[Item 19. Exhibits](#)

61

[EX-8.1 SUBSIDIARIES OF THE REGISTRANT](#)

[EX-12.1 CERTIFICATION OF CEO](#)

[EX-12.2 CERTIFICATION OF CFO](#)

[EX-13.1 CERTIFICATION OF CFO AND CEO](#)

[EX-15.1 CONSENT OF CROWE HORWATH LLP, DATED JUNE 30, 2011](#)

INTRODUCTION

This annual report on Form 20-F includes our audited consolidated financial statements as of December 31, 2009 and 2010, and for the years ended December 31, 2008, 2009 and 2010.

We and certain selling shareholders of our company completed the initial public offering of 13,333,334 ordinary shares of nil par value on May 8, 2007. On May 3, 2007, we listed our ordinary shares on the New York Stock Exchange, or NYSE, under the symbol “QXM.”

Unless otherwise indicated, references in this annual report to:

- “3G” are to the third generation of telecommunication hardware standards and general technology for mobile networking that provides increased bandwidth and allows a mobile device user to access a wide variety of services, such as multimedia;
- “CECT” are to CEC Telecom Co., Ltd., our principal operating subsidiary in China;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan and the special administrative regions of Hong Kong, or the Hong Kong SAR, and Macau;
- “CDMA” are to Code Division Multiple Access, a method for transmitting simultaneous encoded signals over a shared portion of the spectrum. The foremost application of CDMA is digital cellular phone technology;
- “EDGE” are to Enhanced Data GSM Environment, a faster version of the GSM wireless service designed to deliver data at rates up to 384 Kbps;
- “EMS” are to electronic manufacturing services, a general term used to describe the services provided by companies that design, test, manufacture, distribute and provide return and repair services for electronic components and assemblies for original equipment manufacturers;
- “GSM” are to Global System for Mobile Communications, a digital cellular phone technology based on time division multiple access;
- “GPS” are to Global Positioning System, a global navigation satellite system often used for navigation purposes;
- “MIIT” are to China Ministry of Industry and Information Technology;
- “RMB” and “Renminbi” are to the legal currency of China;
- “SIM” are to Subscriber Identity Module, the smart card used in cellular phones to securely store the key that is used to identify the mobile phone service subscriber;
- “SMT” are to Surface Mount Technology, a space saving technique whereby special leadless components are soldered onto the surface of a printed circuit board;
- “TD-SCDMA” are to Time Division-Synchronous Code Division Multiple Access, a 3G wireless standard that supports data transmission at speeds up to 2 Mbps. The standard combines time division multiple access with an adaptive, synchronous-mode code division multiple access component;
- “US\$,” “\$,” and “U.S. dollars” are to the legal currency of the United States;
- “WCDMA” are to Wideband Code Division Multiple Access, a 3G wireless standard which utilizes one 5 MHz channel for both voice and data, initially offering data speeds up to 384 Kbps; and
- “We,” “us,” “our company” and “our” are to Qiao Xing Mobile Communication Co., Ltd., its predecessor entities and its consolidated subsidiaries, unless the context indicates otherwise.

Unless otherwise indicated, all historical share information and per-share information contained in this annual report has been retroactively adjusted to reflect a 40-for-one share split that became effective on April 13, 2007.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that relate to our current expectations and views of future events. The forward-looking statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995 and relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information —D. Risk factors,” which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “is/are likely to,” “may,” “plan,” “potential,” “will” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the market for mobile handsets;
- our expectations regarding the continued growth of the mobile communications industry;
- our expectations with respect to advancements in our technologies;
- our beliefs regarding the competitiveness of our mobile handset products;
- our expectations regarding our manufacturing capacity;
- our expectations with respect to revenue growth and our ability to achieve profitability;
- our future business development, results of operations and financial condition; and
- competition from other manufacturers of mobile handsets.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we filed as exhibits in this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statement of operations data and selected consolidated cash flow data for the years ended December 31, 2008, 2009 and 2010 and the selected consolidated balance sheet data as of December 31, 2009 and 2010 are derived from our audited consolidated financial statements included elsewhere in this annual report, and are qualified by reference to, and should be read in conjunction with, our audited consolidated financial statements and related notes. The selected consolidated statement of operations data and the selected consolidated cash flow data for the year ended December 31, 2007, and our consolidated balance sheet data as of December 31, 2007, have been derived from our audited consolidated financial statements that are not included in this annual report. We adopted authoritative guidance regarding accounting for non-controlling interests in our consolidated financial statements on January 1, 2009, and retrospectively reclassified certain comparative figures for prior periods to conform to the presentation in 2009. Accordingly, the selected consolidated statement of operations data and the selected consolidated cash flow data for the period from January 1, 2006 to November 30, 2006, and the period from November 30, 2006 to December 31, 2006, and the selected consolidated balance sheet data as of November 30, 2006, and December 31, 2006 have been derived from our unaudited consolidated financial statements that are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Our historical results do not necessarily indicate the results that may be expected for any future periods.

Due to the impact of push-down accounting adjustments resulting from our parent company's purchase of the remaining 20% equity interest in our company on November 30, 2006, as more fully described in "Item 5. Operating and financial review and prospects—Financial impact of our corporate history," our 2006 consolidated financial data are presented by two separate periods: (1) the "old basis" period from January 1, 2006 through November 30, 2006 and (2) the "new basis" period from November 30, 2006 through December 31, 2006.

Consolidated statement of operations data (Amounts in thousands, except per share data)	(Old Basis)	(New Basis)					
	January 1, 2006 to	November 30, 2006 to					
	November	December	Year ended December 31,				
	30, 2006	31, 2006	2007	2008	2009	2010	
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(\$)
Revenues	2,281,198	256,013	3,141,094	2,153,873	1,632,912	855,544	129,628
Gross profit (loss)	437,871	37,131	885,250	866,777	251,317	(48,784)	(7,392)
In-process research and development	—	(41,739)	—	—	—	—	—
Amortization of other intangible assets	(10,890)	(4,288)	(32,280)	(11,727)	(4,733)	(4,433)	(672)
Impairment of goodwill	—	—	—	—	—	(112,814)	(17,093)
Impairment of assets held for sale	—	—	—	—	(5,957)	—	—
Impairment of other intangible assets	—	—	—	(26,235)	(13,600)	—	—
Operating income (loss)	379,917	(13,934)	729,017	608,791	7,406	(348,672)	(52,830)
Interest expense	(27,115)	(2,213)	(47,034)	(165,506)	(326,512)	(45,159)	(6,842)
Gain (loss) on remeasurement of embedded derivatives	—	—	—	144,939	(87,935)	19,006	2,880
(Loss) gain on remeasurement of warrant liability	—	—	—	—	(7,219)	4,343	658
(Loss) gain on extinguishment of convertible debts	—	—	—	(10,634)	159,326	—	—
Gain on disposal of subsidiaries	—	—	—	2,269	—	—	—
Impairment of investment at cost	—	—	—	—	(2,803)	—	—
Income (loss) before income tax expense and	371,607	(13,435)	711,251	595,422	(238,357)	(353,767)	(53,601)

extraordinary items							
Income tax expense	(55,991)	(4,251)	(113,377)	(155,717)	(11,632)	(17,456)	(2,645)
Income (loss) before extraordinary items	315,616	(17,686)	597,874	439,705	(249,989)	(371,223)	(56,246)
Extraordinary items: Gains on acquisitions of additional equity interests in CECT, net of nil tax	17,796	—	28,689	—	—	—	—
Net income (loss) ⁽¹⁾	333,412	(17,686)	626,563	439,705	(249,989)	(371,223)	(56,246)
Net (income) loss attributable to noncontrolling interests	(27,260)	(1,799)	(33,074)	(15,901)	(380)	8,381	1,270
Net income (loss) attributable to holders of ordinary shares	306,152	(19,485)	593,489	423,804	(250,369)	(362,842)	(54,976)
Earnings (loss) per share before extraordinary gains ⁽²⁾							
— Basic	7.21	(0.49)	11.69	7.52	(5.21)	(6.85)	(1.04)
— Diluted	7.21	(0.49)	11.69	6.99	(5.21)	(6.85)	(1.04)
Earnings (loss) per share ⁽¹⁾⁽²⁾							
— Basic	7.65	(0.49)	12.28	7.52	(5.21)	(6.85)	(1.04)
— Diluted	7.65	(0.49)	12.28	6.99	(5.21)	(6.85)	(1.04)
Weighted average number of shares outstanding							
— Basic	40,000	40,000	48,322	49,216	48,034	52,935	52,935
— Diluted	40,000	40,000	48,322	56,386	48,034	52,935	52,935

Table of Contents

Consolidated balance sheet data (Amounts in thousands)	(Old Basis)	(New Basis)					
	November	December 31,					
	30, 2006	2006	2007	2008	2009	2010	
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(\$)
Cash	713,099	762,086	2,729,982	2,907,148	3,129,070	2,755,505	417,501
Accounts receivable, net	407,610	546,893	418,564	462,282	114,689	239,390	36,271
Prepayments to suppliers	145,652	232,008	155,993	363,907	181,550	86,302	13,076
Total current assets	1,684,197	1,893,910	3,601,182	4,177,000	3,989,431	3,212,607	486,758
Total assets	1,985,147	2,336,152	3,994,102	4,522,920	4,136,593	3,233,437	489,914
Short-term borrowings	610,314	602,790	983,904	983,950	884,708	446,000	67,576
Accounts payable	177,609	165,326	107,990	52,047	60,751	39,737	6,021
Embedded derivative liability	—	—	—	124,130	39,978	20,113	3,047
Convertible notes	—	—	—	206,211	112,162	112,162	16,994
Total current liabilities	1,026,702	1,207,228	1,239,764	1,515,747	1,211,060	657,306	99,591
Total liabilities	1,030,413	1,218,968	1,245,325	1,516,067	1,233,697	674,956	102,265
Total shareholders' equity	879,637	1,040,288	2,670,542	2,914,788	2,810,451	2,474,417	374,912

Consolidated cash flow data (Amounts in thousands)	(Old Basis)	(New Basis)					
	January 1, 2006 to	November	Year ended December 31,				
	November	December	2007	2008	2009	2010	
	30, 2006	31, 2006	(RMB)	(RMB)	(RMB)	(RMB)	(\$)
Net cash provided by (used in) operating activities	513,378	(215,111)	855,524	110,106	602,369	(268,049)	(40,613)
Net cash (used in) provided by investing activities	(249,317)	63,431	23,016	(57,663)	(58,529)	331,026	50,155
Net cash provided by (used in) financing activities	69,661	200,667	1,117,327	143,738	(321,981)	(436,582)	(66,149)

Other selected operating data ⁽³⁾	Year ended December 31,					
	2006	2007	2008	2009	2010	
Mobile handsets shipped (in thousands of units)	2,262	3,816	2,714	2,123	1,238	
Average mobile handset selling price (RMB) ⁽⁴⁾	1,094	816	788	735	672	

(1) Our PRC operating subsidiary, CECT, enjoys certain preferential tax rates and holidays under local government policies. See "Item 5. Operating and financial review and prospects—Taxation." Without the tax holidays, our net income (loss) and basic and diluted earnings (loss) per share for the following periods would have been reduced or increased as follows:

(Amounts in thousands)	(Old Basis)	(New Basis)					
	January 1, 2006 to	November	Year ended December 31,				
	November	December	2007	2008	2009	2010	
	30, 2006	31, 2006	(RMB)	(RMB)	(RMB)	(RMB)	(\$)
(Reduction in net income by) / increase in net loss by	(1,147)	1	(1,056)	—	—	—	—
Reduction in basic and diluted earnings per share by (2)	(0.02)	—	(0.02)	—	—	—	—

(2) Basic and diluted earnings (loss) per share data reflects on a retroactive basis a 40-for-one share split that became effective on April 13, 2007.

- (3) *Other selected operating data is derived from our operating records.*
- (4) *The average mobile handset selling price for handsets in a given period is calculated by dividing revenue from handsets by unit sales volume during the same period.*

[Table of Contents](#)

We publish our financial statements in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars were made at the noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollar as published by the Federal Reserve Board of the United States as of December 30, 2010, which was RMB6.6000 to \$1.00. No representation is made that the Renminbi amounts referred to in this annual report could have been or could be converted into U.S. dollars at any particular rate or at all.

On June 24, 2011, the certified exchange rate was RMB6.4737 to \$1.00.

The following table sets forth information regarding the certified exchange rates in Renminbi and U.S. dollars for the periods indicated.

	Renminbi per U.S. dollar certified exchange rate			
	Period end	Average(1)	Low	High
2006	7.8041	7.9579	7.8041	8.0702
2007	7.2946	7.5806	7.2946	7.8127
2008	6.8225	6.9193	6.7800	7.2946
2009	6.8259	6.8295	6.8176	6.8470
2010	6.6000	6.7603	6.6000	6.8330
December 2011	6.6000	6.6497	6.6000	6.6745
January	6.6017	6.5964	6.5809	6.6364
February	6.5713	6.5761	6.5520	6.5965
March	6.5483	6.5645	6.5483	6.5743
April	6.4900	6.5267	6.4900	6.5477
May	6.4786	6.4957	6.4786	6.5073
June (through June 24, 2011)	6.4737	6.4757	6.4628	6.4824

Source: For the period from January 1, 2006 to December 31, 2008, the exchange rates were the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York and for the period subsequent to and including January 5, 2009, the exchange rates were the certified exchange rates as published by the Federal Reserve Board of the United States. Effective January 1, 2009, the Federal Reserve Bank of New York discontinued publication of foreign exchange rates certified for customs purposes; and effective January 5, 2009, the Federal Reserve Board of the United States reinstituted the publication of the daily exchange rate data in a weekly version of the H.10 release.

(1) *Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.*

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

Any recurrence of the global financial crisis and economic downturn similar to that occurred in 2008 and early 2009 could materially and adversely affect our business, financial condition, results of operation and prospects.

The global financial markets experienced periods of extreme volatility and disruption in 2008 and early 2009. The global financial crisis, concerns over inflation or deflation, energy costs, geopolitical risks, and the availability and cost of financing contributed to the unprecedented levels of market volatility and adversely affected the expectations for the continuous growth of the global economy, the capital market and the consumer industry. These factors, combined with others, resulted in a severe global economic downturn and also a slowdown in the PRC economy. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number mobile handset we sold in 2009. Although the global and PRC economies have shown signs of recovery from the second half of 2009, any recurrence of the global financial crisis as a result of the recent market volatility

arising from the concerns over certain European countries may adversely affect the growth of the PRC economy, which could adversely affect our business, financial condition, results of operations and prospects.

Evaluating our business and prospects may be difficult and our past results may not be indicative of our future performance.

We have experienced significant decreases in our revenue, operating income and net income in recent years and therefore evaluating our future business and prospects may be difficult.

Table of Contents

Primarily due to the global economic downturn and increasing competition in the Chinese mobile handset market, we experienced significant decreases in our revenue, operating income and net income in each of 2008, 2009 and 2010. The decreases were especially significant in 2010 as our new product offerings were not generally well received by the market.

While we intend to work hard and adopt measures to reverse these recent trends, we may continue to experience significant decreases in our revenue, operating income and net income and may not be able to achieve growth in future periods as we did in earlier years. Due to the current increased competition in the market, our historical operating results may not provide a meaningful basis for evaluating our business, financial performance and prospects and you should not rely on our past results or our historical rates of growth or decline as an indication of our future performance.

If we cannot keep pace with market changes and produce mobile handsets with new technologies and features in a timely and cost-efficient manner to meet our customers' requirements and preferences, the growth and success of our business will be materially adversely affected.

The mobile handset market in China is characterized by changing consumer preferences with respect to style and functionality, increasing demand for new and advanced technologies and features, rapid product obsolescence and price erosion, evolving industry standards, intense competition and wide fluctuations in product supply and demand. If we cannot keep pace with market changes and produce new mobile handsets in a timely and cost-efficient manner to meet our customers' requirements and preferences, the growth and success of our business will be materially adversely affected.

From time to time, we or our competitors may announce new products, product enhancements or technologies that may replace or shorten the life cycles of our products or cause mobile phone users to defer purchasing our existing products. Shorter product cycles may require us to invest more in developing and designing new products and to introduce new products more rapidly, which may increase our costs of product development and decrease our margins and profitability. In addition, we may not be able to make such additional investments and any additional investments we make in new product development and introductions may not be successful.

Even if we are able to continually develop and introduce new products, they may not gain market acceptance. Market acceptance of our products will depend on various factors including:

- the perceived advantages of our new products over existing competing products;
- our ability to attract mobile handset users who are currently using products of our competitors;
- product cost relative to performance; and
- the level of customer service available to support new products.

Market acceptance of our products can also be affected by the telecommunication services provided by mobile telecommunications operators in China. For example, on May 24, 2008, the MIIT, the National Development and Reform Commission, or the NDRC, and the Ministry of Finance jointly issued an announcement to promote innovation in homegrown telecommunications technology and the restructuring of the operations in the telecommunications industry. In January 2009, the MIIT issued 3G licenses to China Mobile (TD-SCDMA), China Unicom (CDMA2000) and China Telecom (WCDMA). The development of 3G wireless telecommunication services and subsequent new technologies could materially impact the sales of our existing and future products. In addition, the operation of inexpensive limited mobility telecommunication services or other competitive services, such as personal handyphone system, in China may also have a material adverse effect on the sales of our mobile handsets.

Therefore, commercial acceptance by customers of new products including any 3G mobile handset we offer may not occur at the rate or level we expect, and we may not be able to successfully adapt existing products to effectively and economically meet customer demand, thus impairing the return from our investments. In addition, a very small portion of our mobile handset models represented a disproportionately large percentage of our handset unit sales and revenue in the past several years and these product leaders served as important drivers for our overall growth. However, we may not be able to replicate such "hit" models on a regular basis, if at all, in future periods. If our existing or new products fail to achieve market acceptance for any reason, our business and growth prospects could be materially adversely affected. We may also be required under applicable accounting standards to recognize a charge for the impairment of assets to the extent our existing products become uncompetitive or obsolete, or if any new products fail to achieve commercial acceptance. Any such charge may have a material adverse effect on our results of operations.

Competition in our industry is intense. Our failure to maintain or improve our market position and respond successfully to changes in the competitive landscape may have a material adverse impact on our business and results of operations.

The mobile handset manufacturing industry in China is intensely competitive. Industry participants compete with each other mainly on the basis of the breadth and depth of their product portfolios, price, operational and manufacturing efficiency, technical performance,

product features, quality, customer support and brand recognition. We are facing significant competition from a number of competitors, including domestic mobile handset producers such as Bird Ningbo Co., Ltd., Konka Group Co., Ltd., Beijing Tianyu Communication Equipment Co. Ltd., Gionee Communication Co., Ltd. and Haier (Qingdao) Telecom Co., Ltd. and a number of large multinational mobile handset producers, such as Apple Inc., Nokia Corporation, Motorola, Inc., Samsung Electronics Co., Ltd., Sony Ericsson Mobile Communications (China) Co. Ltd., and LG Electronics (China) Ltd. Many of our competitors have longer operating histories, greater name recognition, significantly larger market shares, access to larger customer bases and significantly greater economies of scale and financial, sales and marketing, manufacturing, distribution, technical and other resources than we do. Some of these competitors have used, and we expect will continue to use, more aggressive pricing strategies, greater amounts of incentives and subsidies for distributors, retailers and customers, more successful design approaches and more advanced technologies. In addition, some competitors have chosen to focus on building products based on commercially available components, which may enable them to introduce these products faster and with lower levels of research and development spending than us. Furthermore, consolidation among the industry participants in China may potentially result in stronger competitors that are better able to compete as end-to-end suppliers as well as competitors who are more specialized in particular areas and geographic markets. This could have a material adverse effect on our business, financial condition, results of operations and prospects.

[Table of Contents](#)

Our operating results significantly depend on our ability to compete in this market environment, in particular on our ability to adapt to political, economic or regulatory changes, to introduce new products to the market and to continuously enhance the functionality while reducing the cost of new and existing products. If we fail to maintain or increase our market share and scale compared to our competitors, our cost advantage may be eroded, which could materially adversely affect our competitive position and our results of operations, particularly our profitability.

In addition, we also face competition from unlicensed mobile handset manufacturers in China that make mobile handsets without the requisite governmental approvals and licenses. We believe that these manufacturers are able to keep their production costs low primarily as a result of tax avoidance and non-payment of various fees that are required for all licensed products. Despite recent government action against many of these unlicensed manufacturers, we believe that such mobile handsets still account for a significant portion of all mobile handsets sold in China. If the government is not successful in preventing these unlicensed mobile handset manufacturers from producing and selling their mobile handsets, our market share and our results of operations could be materially adversely affected.

As a result of developments in our industry, we also expect to face new competition from companies in related industries, such as consumer electronics manufacturers. Additionally, we face increasing competition from mobile telecommunication operators that are increasingly offering mobile devices under their own brands. If we cannot respond successfully to these competitive developments, our business and results of operations may be materially adversely affected.

Our sales, results of operations and reputation could be materially adversely affected if we fail to efficiently manage our manufacturing operations without interruption, or fail to ensure that our products meet the expectations of our distributors and our end-user customers and are delivered on time.

The operation of our business requires successful coordination of several sequential and complex manufacturing processes, the disruption of any of which could interrupt our revenue generation and have a material and adverse effect on our relationships with our distributors and end-user customers, our brand name, and our financial performance. Our manufacturing operations involve raw material and component sourcing from third parties, internal assembly processes and distribution processes. These operations are modified on a regular basis in an effort to improve manufacturing and distribution efficiency and flexibility. We may experience difficulties in coordinating our supplies of components and raw materials to meet the demand for our products, increasing or decreasing production at our facilities, adopting new manufacturing processes, finding a timely way to develop the best technical solutions for new products, or achieving manufacturing efficiency and flexibility. We may experience delays in adjusting or upgrading production at our facilities when we introduce new models, delays in expanding manufacturing capacity, failure in our manufacturing processes or failure by our business partners to adequately perform the services we have outsourced to them, which in turn may have a material adverse effect on our sales and results of operations. In addition, a failure or an interruption could occur at any stage of our product development, manufacturing and delivery processes, resulting in products not meeting the expectations of our distributors and our customers, or being delivered late, which could have a material adverse effect on our sales, results of operations and reputation.

Our operations could be materially adversely affected if we fail to manage effectively our relationships with, or lose the services of, our third-party manufacturers or other third-party service providers.

We rely on the manufacturing services provided by third-party manufacturers, including EMS providers, to manufacture a significant portion of our mobile handset products. In 2008, 2009 and 2010, we outsourced to third-party EMS providers, 73.7%, 90.2% and 99.4%, respectively, of the total mobile handsets we shipped. Reliance on third-party manufacturers involves a number of risks, including the lack of control over the manufacturing process and the potential absence or unavailability of adequate capacity. If any of our third-party manufacturers cannot or will not manufacture our products in required volumes on a cost-effective basis, in a timely manner, at a sufficient level of quality, or at all, we will need to secure additional manufacturing capacity. Even if this additional capacity is available at commercially acceptable terms, the qualification process could be lengthy and could cause interruptions in product shipments, which may result in a decrease in our sales. In many cases, some of our competitors also utilize the same contract manufacturers, and we could be blocked from acquiring the needed components or increasing capacity if they have purchased capacity ahead of us. The unexpected loss of any of our third-party manufacturers could be disruptive to our business.

We rely on independent mobile handset designers in China for certain software and hardware designs used in our production. If these or other mobile handset designers terminate their business relationships with us, or are otherwise unable to provide us with designs suitable for our products, or if we fail to enhance our in-house research and development activities to compensate for our inability to obtain designs suitable for our products from these handset designers, our business and our results of operations could be materially adversely affected.

We outsource certain software and hardware designs used in producing our products, such as high-end handset main boards, to independent mobile handset designers in China. If these mobile handset designers terminate their business relationships with us, or are otherwise unable to provide us with designs suitable for our products, or if we fail to increase our in-house research and development

activities to compensate for our inability to obtain designs suitable for our products from these handset designers, our business and our results of operations could be materially adversely affected.

[Table of Contents](#)

Our results of operations, particularly our profitability, may be materially adversely affected if we do not successfully manage price erosion and are not able to manage costs related to our products and operations.

Price erosion is a characteristic of the mobile handset industry, and the products offered by us are also subject to natural price erosion over time. If we are not able to lower our costs at the same rate or faster than this price erosion and introduce new cost-efficient products with higher prices in a timely manner, as well as manage costs related to our products and operations generally, it will have a material adverse effect on our business and results of operations, particularly our profitability.

We rely primarily on our distributors for marketing our products at the provincial and local levels and for after-sales support of our products. Because we have limited influence over our distributors, we cannot be certain that their marketing and after-sale support of our products will be adequate or will not harm our brand and reputation. Moreover, if we fail to timely identify additional or replacement distributors upon the loss of one or more of our distributors, or if we are unable to successfully manage our distribution network, or if we are unable to collect payments from our distributors on a timely basis, our operating results may suffer.

Substantially all of our sales are made to our distributors. As of June 24, 2011, our distribution network included four national distributors, 38 provincial distributors and three TV direct sales distributors. These distributors resell our products to end customers in China either directly or through their own distribution networks principally composed of local distributors and retail outlets. We grant our distributors the right to use our brand name and logo when they market our products within their respective sales territories or channels and when they provide after-sales support to our end-user customers. However, our contractual arrangements with our distributors do not provide us with control over their everyday business activities, and one or more of our distributors may engage in activities that are prohibited under our contractual arrangements with them, that violate PRC laws and regulations governing the mobile handset industry or other PRC laws and regulations generally, or that are otherwise harmful to our business or our reputation in the industry.

Distributors individually accounting for more than 10% of our revenues collectively accounted for 65.1%, 86.4% and 77.6% of our revenues in 2008, 2009 and 2010, respectively. See note 1(c) to our audited consolidated financial statements included elsewhere in this annual report for a list of such distributors. Due to our dependence on distributors for the sale, marketing and after-sales support of our products, any one of the following events may cause material fluctuations or declines in our revenue and have a material adverse effect on our financial condition and results of operations:

- reduction, delay or cancellation of orders from one or more of our distributors;
- selection by one or more of our distributors of our competitors' products;
- failure to timely identify additional or replacement distributors upon the loss of one or more of our distributors; and
- failure of any of our distributors to make timely payment for our products.

In addition, we rely on our distributors for marketing activities at the provincial and local levels. This approach may not be effective in building brand recognition at provincial and local levels consistent with our national brand-building efforts. We also outsource to some of our distributors and other third parties our after-sales support to end-user customers. If our after-sales service providers fail to provide adequate, satisfactory and effective after-sales support, our brand image may suffer, and our business and results of operations could be materially adversely affected.

We currently enjoy a number of favorable arrangements with some of our distributors, such as exclusive sales relationships, up-front payment by distributors, and settlement by cash or promissory notes guaranteed by banks. However, the competition for distribution channels is intense in the mobile handset industry in China and many of our competitors are expanding their distribution channels in China. We may not be able to compete successfully against the larger and better funded sales and marketing operations of some of our current or potential competitors, especially if these competitors provide more favorable contractual arrangements for distributors. As a result, we may lose some of our distribution channels to our competitors, which may cause us to lose some or all of our favorable arrangements with these distributors and may even result in the termination of our contractual relationships with some of our distributors. While we do not believe we are substantially dependent upon any individual distributor, finding replacement distributors could be time-consuming and any resulting delay may be disruptive and costly to our business. In addition, we may not be able to successfully manage our distribution channels and the cost of any consolidation or further expansion may exceed the revenue generated from these efforts. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products and therefore materially harm our financial condition and results of operations.

Our distributors often must make a significant commitment of capital to purchase our products, and we provide trade credits to some of our distributors. As a result, any downturn in a distributor's business that affects the distributor's ability to pay us could harm our financial condition. Historically, we have not experienced any significant bad debt or collection problems, but such problems may

arise in the future. The failure of any of our distributors to make timely payments could require us to write off accounts receivable or increase provisions made against our accounts receivable, either of which could adversely affect our financial condition.

If we fail to source a sufficient quantity of high-quality components used in our products at reasonable costs from our suppliers, our competitive position, reputation and business could suffer. Our dependence on suppliers for certain types of components could jeopardize our production activities and increase our cost of sales.

Table of Contents

We do not produce most of the components and raw materials necessary for the production of our mobile handsets and rely on suppliers to provide us with a substantial portion of these components and raw materials. The aggregate costs attributable to our five largest raw materials and components suppliers in 2008, 2009 and 2010 were 72.5%, 88.3% and 97.4%, respectively. We may experience a shortage in the supply of certain components in the future and if any such shortage occurs, our manufacturing capabilities and results of operations could be materially adversely affected. If any supplier is unwilling or unable to provide us with high quality components and raw materials in required quantities and at acceptable costs, we may not be able to find alternative sources on satisfactory terms in a timely manner, or at all. Our inability to find or develop alternative sources if and as required could result in delays or reductions in manufacturing and product shipments. Moreover, these suppliers may delay component or material shipments or supply us with inferior quality components or raw materials that may adversely impact the performance of our mobile handsets. If any of these events occur, our competitive position, reputation and business could suffer.

Some of our products also incorporate imported components. Our imported electronic components and raw materials are subject to a variety of Chinese governmental permit requirements, approval procedures and import duties, and may also, from time to time, be subject to export controls and other legal restrictions imposed by foreign countries. Should the Chinese government refuse to issue the necessary permits or approvals to us or our suppliers, or take any administrative actions to limit imports of certain components, or if we or our suppliers fail to pay any required import duties, or if governmental agencies or laws of foreign countries prevent the timely export of certain components we require to China, we may become subject to penalties and fines or fail to obtain important components for our mobile handsets, and our ability to manufacture and sell our products in China could be adversely affected. In addition, import duties increase the cost of our products and may make them less competitive.

Some components and materials used in our products are currently purchased from a single supplier or a small number of suppliers and our ability to deliver our products according to market demands depends in large part on obtaining timely and adequate supplies of components and materials on competitive terms. Failure by any of our suppliers to meet our needs for components could impact our production targets, limit our sales or increase our costs. While we do not believe we are substantially dependent upon any individual supplier, finding alternative suppliers for these components and materials could be costly and time-consuming. Moreover, if we fail to anticipate customer demand properly, an over- or undersupply of components and production capacity could occur. This factor could limit our ability to supply sufficient products to our customers or could increase our costs. At the same time, we may commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs.

We maintain inventories of raw materials, components and handsets, and our inventories may become obsolete.

The rapid technological change in our industry, the short product life cycle of our handsets, our limited forecasting experience and processes and the competitive nature of our target markets make forecasting our future sales and operating results difficult. Our expense levels are based, in part, on our expectations regarding future sales. In addition, to enable us to promptly fill orders, we maintain inventories of raw materials, components and handsets. As a result, we have to commit to considerable costs in advance of anticipated sales. Any significant shortfall of sales may result in our maintaining higher levels of inventories of raw materials, components and finished goods than we require, thereby increasing our risk of inventory obsolescence and corresponding inventory write-downs and write-offs. We cannot guarantee that such write-downs will be adequate to cover all losses resulting from inventory obsolescence.

We may require additional capital and we may not be able to obtain it on acceptable terms or at all.

We believe that our current cash and cash flow from operations will be sufficient to meet our present working capital needs. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of China-based mobile handset companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in the telecommunications industry;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition and results of operations.

Our past brand-sharing practices may result in negative publicity and may even lead to investigations or penalties by relevant PRC regulatory authorities, which could have a material adverse impact on our reputation and business.

Through the first half of 2006, we allowed other mobile handset manufacturers to use our GSM licenses to produce mobile handsets and sell these mobile handsets under our brand name. Although we exerted a certain degree of control over the manufacturing processes of these mobile handsets, we had almost no control over most other aspects of the production and sale of these handsets, including raw materials purchases. As a result, mobile handsets produced under these arrangements by the other manufacturers may not have the same quality as the products made by us and any product quality claims associated with these mobile handsets may result in adverse publicity for us and harm to our reputation in the market, which may result in a decrease in sales of our mobile handsets and materially adversely affect our financial condition and results of operations.

[Table of Contents](#)

In addition, although there are no specific laws and regulations in China governing the brand-sharing practice as described above or similar practices, the MIIT and the State Administration of Industry and Commerce launched certain campaigns in the past aimed at stopping practices they considered inconsistent with acceptable industry practices. Should these relevant regulatory authorities decide that our past brand-sharing practices were unacceptable or contravened existing laws and regulations in China, we may become subject to investigations or penalties. Furthermore, if any new regulation prohibiting brand-sharing is promulgated with retroactive effect, our past brand-sharing practice may be subject to investigation based upon such new regulation, which may result in penalties and may have an adverse effect on us.

Our operating results are difficult to predict and may fluctuate significantly from period to period in the future.

Our operating results are difficult to predict and may fluctuate significantly from period to period based on a number of factors such as the launch of particular best-selling products in a given period, the seasonality of our mobile handset sales, the short life-cycle of any given handset model in China due to rapid technological advances, a possible deterioration of economic conditions in China and potential changes to the regulation of the mobile handset industry in China. These factors are discussed elsewhere in this annual report. As a result, you may not be able to rely on period-to-period comparisons of our operating results as an indication of our future performance. If our revenues for a particular period are lower than we expect, we may be unable to reduce our fixed costs and operating expenses for that period by a corresponding amount, which would negatively impact our operating results for that period relative to our operating results for other periods.

We must develop or otherwise acquire complex, evolving technologies to use in our business and meet market demand. Our failure to develop or otherwise acquire these complex technologies, or to successfully commercialize such technologies as new advanced products that meet customer demand on a timely basis, will have a material adverse effect on our business, our ability to meet our targets and our results of operations.

To succeed in our markets and meet market demand, we must develop or otherwise acquire complex, evolving technologies to use in our business. However, the development and use of new technologies, applications and technology platforms for our mobile handsets involves the commitment of significant amounts of our management's time, substantial costs and risks both within and outside of our control. This is true whether we develop these technologies internally, acquire or invest in other companies with these technologies or collaborate with third parties on the development of these technologies.

The technologies, functionalities and features on which we choose to focus may not achieve as broad or timely customer acceptance as we expect. This may result from numerous factors, including the availability of more attractive alternatives or a lack of sufficient compatibility with other existing technologies, products and solutions. Additionally, even if we do select the technologies, functionalities and features that customers ultimately want, we or the companies that work with us may not be able to bring them to the market in a timely manner. We may also face difficulties obtaining and providing the technologies preferred by our potential customers, or at prices acceptable to them.

In addition, our products include increasingly complex technologies developed or licensed to us by third parties. We may not be able to obtain or maintain necessary or desirable licenses or permits from third parties, with full rights needed to use them in our business, on commercially acceptable terms at such times as we may seek to use them.

We rely on a number of technologies licensed from third parties and the loss of some or all of these licenses or failure to renew them on a timely basis could interrupt our production and have a material adverse impact on our business.

We rely on a number of technologies licensed from third parties for manufacturing our mobile handsets. For example, we rely on Access China Inc. for certain software supporting wireless application protocol and multimedia messaging service functions. If some or all of such licenses are terminated, or if we fail to renew certain licenses on a timely basis or if we fail to find alternative suppliers, our production of mobile handsets would be disrupted and our business and financial conditions could be materially adversely affected.

We have not applied for patents or registered copyrights for most of our intellectual property and our failure to adequately protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. We rely primarily on trade secrets and other contractual restrictions to protect our intellectual property. We have not applied for patents or registered copyrights in China for most of our inventions, original works of authorship, developments and improvements relating to the mobile handsets we produce. The actions we have taken to protect our intellectual property rights may not be adequate to provide us with meaningful protection or commercial advantage. As a result, third

parties may use the technologies that we have developed and compete with us, which could have a material adverse effect on our business, financial condition and operating results.

In addition, policing unauthorized use of proprietary technology can be difficult and expensive. Litigation may be necessary to enforce our intellectual property rights and the outcome of any such litigation may not be in our favor. Given the relative unpredictability of China's legal system and potential difficulties in enforcing a court judgment in China, there is no guarantee that we would be able to halt the unauthorized use of our intellectual property through litigation in a timely manner. Furthermore, any such litigation may be costly and may divert management attention away from our business and cause us to expend significant resources. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse impact on our business, financial condition and results of operations.

[Table of Contents](#)

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely against us, could disrupt our business and subject us to significant liability to third parties, as well as have a material adverse effect on our financial condition and results of operations.

Our success depends, in large part, on our ability to use and develop our technology, know-how and product designs without infringing upon the intellectual property rights of third parties.

Our products include increasingly complex technology and, as the amount of such technologies and the number of parties claiming rights continue to increase, the possibility of alleged infringement and related intellectual property claims against us continues to rise. The holders of patents and other intellectual property rights potentially relevant to our product offerings may be unknown to us, or may otherwise make it difficult for us to acquire a license on commercially acceptable terms. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by others which could damage our ability to rely on such technologies. In addition, although we endeavor to ensure that companies that work with us possess appropriate intellectual property rights or licenses, we cannot fully avoid the risks of intellectual property rights infringement created by suppliers of components used in our products or by companies with which we work in cooperative research and development activities.

Since all technology standards, including those used and relied on by us, include some intellectual property rights, we cannot fully avoid risks of a claim for infringement of such rights due to our reliance on such standards. We believe that the number of third parties declaring their intellectual property to be relevant to these standards, for example, those standards related to 3G mobile communication technologies as well as other advanced mobile communications standards, is increasing, which may increase the likelihood that we will be subject to such claims in the future. While we believe that any such intellectual property rights declared and found to be essential to a given standard carry with them an obligation to be licensed on fair, reasonable and non-discriminatory terms, not all intellectual property owners agree on the meaning of that obligation and, thus, costly and time-consuming litigation over such issues may result in the future.

As we continue to market and sell our products throughout China, and as litigation becomes more common in China, we face a higher risk of becoming subject to claims for intellectual property infringement. While we have not, to date, become subject to these types of claims, it is possible that we may, in the future, become subject to such intellectual property infringement claims. Regardless of whether such claims have merit or are decided in our favor, any such litigation could have a negative impact on our brand, reputation and ability to conduct our business and sell some or all of our products.

Our current or potential competitors, many of which have substantial resources and have made substantial investments in competing technologies, may have or may obtain patents that will prevent, limit or interfere with our ability to make, use or sell our products in China or other countries. The validity and scope of claims relating to these patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. In addition, the defense of intellectual property claims, including patent infringement suits, and related legal and administrative proceedings can be both costly and time consuming, and may significantly divert the efforts and resources of our technical and management personnel. Furthermore, an adverse determination in any such litigation or proceeding to which we may become a party could cause us to:

- pay damage awards;
- seek licenses from third parties;
- pay additional ongoing royalties, which could decrease our profit margins;
- redesign our products; or
- be restricted by injunctions,

each of which could effectively prevent us from pursuing some or all of our business and result in our customers or potential customers deferring or limiting their purchase or use of our products, which could have a material adverse effect on our financial condition and results of operations.

It may become more difficult to maintain our quality standards, and problems with product quality or product performance could result in a decrease in customers and revenue, unexpected expenses and loss of market share. Product liability claims against us could result in adverse publicity and potentially significant monetary damages.

Our operating results depend, in part, on our ability to deliver quality products on a timely and cost-effective basis. In the past, we have experienced manufacturing defects as a result of various factors, including defects in component parts and human error in assembly. As mobile handset products become technologically more complex, it may become more difficult to maintain our quality standards. If we experience deterioration in the performance or quality of any of our products, it could result in delays in shipments,

cancellations of orders or customer returns and complaints, loss of goodwill, and harm to our brand and reputation. Furthermore, as a result of ongoing technological developments, our products are increasingly used together with hardware or software components that have been developed by third parties and when a problem occurs, it may be difficult to identify the source of the problem. In addition, some components, such as batteries or software applications, may not be fully compatible with our products and may not meet our and our customers' quality, safety, security or other standards. The use by customers of our products with incompatible or otherwise substandard hardware or software components, while largely outside of our control, could result in malfunctions or defects in our handsets and result in harm to our brand. These problems may lead to a decrease in customers and revenue, harm to our brand, unexpected expenses, loss of market share, the incurrence of significant warranty and repair costs, diversion of the attention of our engineering personnel from our product development efforts, customer relation problems or loss of customers, any one of which could materially adversely affect our business.

[Table of Contents](#)

In addition, we contract with third parties, such as EMS providers, to use their manufacturing facilities to produce our mobile handsets. We may be unable to exercise the same degree of quality control over these manufacturing facilities as we can over our own facilities. Any product quality problems associated with the products produced by these third parties may also lead to adverse publicity against us, affect our reputation and cause a decrease in sales of our mobile handsets.

As with other mobile handset producers, we are also exposed to risks associated with product liability claims if the use of the mobile handsets we sell results in injury, death or damage to property. We cannot predict at this time whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. We do not have product liability insurance and have not made provisions for potential product liability claims. Therefore, we may not have adequate resources to satisfy a judgment if a successful claim is brought against us. Moreover, the successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments and incur substantial legal expenses. Even if a product liability claim is not successfully pursued to judgment by a claimant, we may still incur substantial legal expenses defending against such a claim.

Our sales and profitability depend on the continued growth of the mobile telecommunications industry, especially in China, and if the mobile telecommunications industry does not grow as we expect or grows at a slower speed than we expect, our sales and profitability may be materially adversely affected.

We derive substantially all of our revenues from sales of mobile handsets in China. The continued development of our business depends, in large part, on continued growth in the mobile telecommunications industry, especially in China, in terms of the number of existing mobile subscribers who upgrade or replace their existing mobile handsets, the number of new subscribers and increased usage. Although China's wireless telecommunication industry has grown rapidly in the past, it may not continue to grow at the same growth rate in the future or at all.

Furthermore, our sales and profitability are also affected by the extent to which there is increasing demand for, and development of, value-added services, leading to opportunities for us to successfully market mobile handsets that feature those services. To a certain extent, we are dependent on third-party mobile telecommunication operators to successfully introduce these value-added services that encourage end users to upgrade or replace their mobile handsets. For instance, mobile telecommunication operators in China have upgraded their networks to offer 3G wireless telecommunication services, which we believe will lead to increased demand for enhanced wireless value-added services and, therefore, increased demand for mobile handsets with more advanced technologies in China. Therefore, if mobile telecommunication operators are not successful in their attempts to introduce new services, increase the number of subscribers, stimulate increased usage and drive replacement sales, our business and results of operations could be materially adversely affected.

These developments in our industry are, to a large extent, outside of our control and any reduced demand for wireless voice and data services, any other downturn or other adverse changes in China's wireless telecommunication industry could severely harm our business.

Changes in the regulatory environment for telecommunications systems and services, especially in China, could negatively impact our business.

The telecommunications industry in China is heavily regulated and regulatory changes may affect both our customers and us. For example, changes in regulations that impose more stringent standards for the production of mobile handsets could adversely affect our business. Similarly, tariff regulations that affect the pricing of new services offered by mobile telecommunication operators could also affect their ability to invest in network infrastructure, which in turn could affect the sales of our mobile handsets. License fees, environmental, health and safety, privacy and other regulatory changes may increase costs and restrict operations of mobile telecommunication network operators and service providers. The indirect impact of such changes could affect our business adversely even though the specific regulations may not directly apply to our products or us.

MIIT has broad discretion and authority to regulate all aspects of the telecommunication and information technology industry in China, including managing spectrum bandwidths, setting mobile handset specifications and standards, approving the adoption of new technologies such as 3G, and drafting laws and regulations related to the electronics and telecommunication industries. MIIT also determines the forms and types of services that may be offered by telecommunication companies to the public, the rates that are charged to subscribers for those services and the content of material available in China over wireless services, including Internet content. In addition, China's telecommunication regulatory framework is still at a relatively early stage of development, and prone to directional shifts and major structural changes. The PRC government is in the process of drafting a national telecommunication law, which may include new legislation governing the mobile handset industry. If MIIT sets standards with which our company is unable to comply or which would render our products uncompetitive, our ability to sell products could be severely limited, resulting in substantial harm to our operations.

Any environmental claims or failure to comply with any present or future environmental regulations may require us to spend additional funds and may materially adversely affect our financial condition and results of operations.

We are subject to environmental, health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. We believe that we are in compliance with all material environmental, health and safety laws and regulations related to our products, operations and business activities. Although we have not suffered material environmental claims in the past, the failure to comply with any present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of our operations. New regulations could also require us to acquire costly equipment or to incur other significant expenses. Any failure by us to control the use of, or to adequately restrict the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspension of our business operations, which could materially adversely affect our financial condition and results of operations.

[Table of Contents](#)

We do not carry any business interruption insurance or third-party liability insurance for our manufacturing facilities.

We currently have one main handset manufacturing facility located in Huizhou City, Guangdong Province, China. Operation of manufacturing facilities involves many risks, including equipment failures, natural disasters, industrial accidents, power outages, labor disturbances and other business interruptions. We do not carry any business interruption insurance or third-party liability insurance for our manufacturing facilities to cover claims in respect of personal injury or property or environmental damage arising from accidents on our property or relating to our operations. Therefore, our existing insurance coverage may not be sufficient to cover all risks associated with our business. As a result, we may be required to pay for financial and other losses, damages and liabilities, including those caused by natural disasters and other events beyond our control, out of our own funds, which could have a material adverse effect on our business, financial condition and results of operations.

Labor laws in the PRC may adversely affect our results of operations.

On June 29, 2007, the PRC government promulgated the Labor Contract Law of the PRC, or the Labor Contract Law, which became effective on January 1, 2008, and its implementary rules effective on September 18, 2008. The Labor Contract Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost effective manner, thus materially and adversely affecting our financial condition and results of operations.

The dividends we receive from CECT and our global income may be subject to PRC tax under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our results of operations. In addition, our foreign corporate holders of ordinary shares may be subject to a PRC withholding tax upon the dividends payable by us and upon gains realized on the sale of our ordinary shares, if we are classified as a PRC "resident enterprise."

Under the PRC Enterprise Income Tax Law, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in the PRC to its foreign investor who is a non-resident enterprise are subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with the PRC that provides for a reduced rate of withholding tax. The British Virgin Islands, where we are incorporated, does not have such a tax treaty with the PRC. If we are considered a non-resident enterprise, this 10% withholding tax imposed on our dividend income received from CECT would reduce our net income and have an adverse effect on our operating results.

Under the tax law, an enterprise established outside the PRC with its "de facto management body" within the PRC is considered a resident enterprise and is subject to the enterprise income tax at the rate of 25% on its worldwide income. The "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. Substantially all of our management members are based in the PRC. If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our worldwide income will be subject to income tax at a uniform rate of 25%, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the tax law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempted from income tax, subject to certain conditions. Therefore, if we are classified as a resident enterprise, the dividends we receive from CECT may be exempted from income tax.

In addition, under the tax law, foreign corporate holders of our ordinary shares may be subject to a 10% withholding tax upon dividends payable by us and gains realized on the sale or other disposition of ordinary shares, if such income is sourced from within the PRC. Although we are incorporated in the British Virgin Islands, it remains unclear whether the dividends payable by us or the gains our foreign corporate holders may realize will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax may reduce the return on an investment in our ordinary shares by a foreign corporation.

We depend on our key personnel, and our business and growth may be severely disrupted if we lose their services. We may also have difficulty attracting and retaining qualified management and research and development personnel.

Our future success depends substantially on the continued services of our key personnel. In particular, we are highly dependent on Mr. Zhi Yang Wu, our chairman and chief executive officer, and Dr. David Li, our general manager of research and development. We rely on their experience in the mobile handset manufacturing industry, similar business operations and sales and marketing and on their relationships with our shareholders, customers and suppliers. If we lose the services of one or more of these key personnel, we may not be able to replace them readily, if at all, with suitable or qualified candidates, and may incur additional expenses to recruit and retain new officers, which could severely disrupt our business and growth. We do not maintain key-man life insurance for any of our

key personnel. If one or more of our key personnel is unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all.

In addition, if any of these key personnel joins a competitor or forms a competing company, we may lose some of our customers. We have entered into employment agreements with each of these key personnel, which contain confidentiality and non-competition provisions. However, if any disputes arise between these key personnel and us, it is not clear, in light of uncertainties associated with the PRC legal system, what the court decisions will be and the extent to which these court decisions could be enforced in China, where all of these key personnel reside and hold some of their assets. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.” Furthermore, as we expect to continue to expand our operations and develop new products, we will need to continue attracting and retaining experienced management and key research and development personnel.

[Table of Contents](#)

Competition for management and research and development personnel in the mobile handset market in China is intense, and the availability of suitable and qualified candidates is limited. In particular, we compete to attract and retain qualified research and development personnel with other mobile handset manufacturers, universities and research institutions. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could have a material adverse effect on our financial condition and results of operations. We may also be unable to attract or retain the personnel necessary to achieve our business objectives, and any failure in this regard could severely disrupt our business and growth.

Fluctuations in exchange rates could adversely affect our business.

Because substantially all of our earnings are denominated in Renminbi, any appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our balance sheet position and financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. In addition, fluctuations in the exchange rate between the U.S. dollar and the Renminbi would affect the relative purchasing power of our U.S. dollar-denominated cash assets and the Renminbi value of our U.S. dollar-denominated bank borrowings. Fluctuations in the exchange rate will also affect the relative value of any dividend we may issue that will be exchanged into U.S. dollars and the earnings from and value of any U.S. dollar-denominated investments we make in the future.

Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.3% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future the PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Only limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

We believe that we were a passive foreign investment company for U.S. federal income tax purposes for our taxable year that ended December 31, 2010 and we may continue to be a passive foreign investment company in the current and future taxable years, which could result in adverse U.S. federal income tax consequences to U.S. investors.

We believe that we were a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes for our taxable year that ended December 31, 2010. We may continue to be a PFIC in the current and future taxable years unless (i) we significantly reduce the amount of cash we hold or (ii) our market capitalization increases significantly. Such classification could result in adverse U.S. federal income tax consequences to U.S. investors. We must make a separate determination each year as to whether we are a PFIC.

Specifically, we would be a PFIC for a taxable year if (i) at least 75% of our gross income is passive income during the taxable year or (ii) at least 50% of the average quarterly value of our assets during the taxable year is derived from assets that produce, or that are held for the production of, passive income.

In applying the asset test described above, the value of our assets will generally be deemed to be equal to the sum of the aggregate value of our outstanding equity plus our liabilities. For purposes of the asset test, our goodwill, which is generally measured as the sum of the aggregate value of outstanding equity plus liabilities, less the value of known assets, should be treated as a non-passive asset. Therefore, a decrease in the market price of our ordinary shares and associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. If there is such a reduction in goodwill and the value of our non-passive assets, the percentage of the value of our assets that is attributable to passive assets may increase, and if such percentage, based on an average of the quarterly values during a taxable year, exceeds 50%, we will be a PFIC for such taxable year. Accordingly, fluctuations in the market price of our ordinary shares may result in us being a PFIC for any year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we have on hand.

If we are a PFIC for any taxable year, dividends paid by us in that year or the following taxable year will not be eligible for the reduced rate of taxation applicable to non-corporate U.S. investors, including individuals. Additionally, absent a special election, U.S. investors may be subject to additional U.S. federal income tax on gain recognized with respect to the ordinary shares and on certain distributions, plus an interest charge.

For a detailed discussion of the PFIC rules, see “Item 10. Additional information—E. Taxation—U.S. Federal Income Taxation—Passive foreign investment company.” We urge investors to consult their own tax advisors with respect to the U.S. federal income tax consequences of their investment.

If we fail to maintain an effective system of internal control over financial reporting, our ability to accurately and timely report our financial results or prevent fraud may be adversely affected. In addition, investor confidence and the market price of our ordinary shares may be adversely impacted if we conclude that our internal control over financial reporting is not effective, in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Upon the closing of the initial public offering of our ordinary shares in May 2007, we became a public company in the United States that is subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires that we include a report from management on our internal control over financial reporting in this annual report on Form 20-F. In addition, the Securities Exchange Commission, or the SEC, may require our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting in our future annual reports. Our management has concluded that our internal controls over financial reporting were effective as of December 31, 2010. Such management report on internal control over financial reporting was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC. In the future, our management may conclude that our internal controls over our financial reporting are not effective. This could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which could adversely impact the market price of our ordinary shares. Our reporting obligations as a public company place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

[Table of Contents](#)

Effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the market price of our ordinary shares. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in the effort to comply with Section 404 of the Sarbanes-Oxley Act.

Compliance with new rules and regulations applicable to companies publicly listed in the United States is costly and complex and any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us and cause the market price of our ordinary shares to decrease.

In addition to Section 404, the Sarbanes-Oxley Act also mandates, among other things, that companies adopt new corporate governance measures, imposes comprehensive reporting and disclosure requirements, sets stricter independence and financial expertise standards for audit committee members, and imposes increased civil and criminal penalties for companies, their chief executive officers, chief financial officers and directors for securities law violations. For example, in response to the Sarbanes-Oxley Act, the New York Stock Exchange has adopted additional comprehensive rules and regulations relating to corporate governance. After the initial public offering of our ordinary shares in May 2007, these new laws, rules and regulations increased the scope, complexity and cost of our corporate governance and future reporting and disclosure practices. Our current and future compliance efforts will continue to require significant management attention. It has also become more difficult and more expensive for companies such as ours to obtain director and officer liability insurance, and we may be required to accept reduced coverage and to incur substantially higher costs to obtain coverage. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers to fill critical positions within our company. Any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us, cause the market price of our ordinary shares to decrease or even result in the delisting of our ordinary shares from the New York Stock Exchange.

Risks Related to our Relationship with XING

Our parent company has substantial control over us, and one of the existing shareholders of our parent company has substantial control over our parent company and us. The interests of our parent company and its controlling shareholder/shareholders may not be aligned with the interests of our other shareholders.

Our parent company, Qiao Xing Universal Resources, Inc., or Xing, a public company listed on the Nasdaq Global Market, owned approximately 60.7% of our outstanding share capital as of December 31, 2010. Accordingly, Xing, as our controlling shareholder, has substantial control over our business, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Xing's ultimate major shareholder is Mr. Rui Lin Wu, the chief executive officer and chairman of Xing and vice chairman of our company, who owned an aggregate of 41.5% equity interest in Xing as of June 24, 2011. In addition, Mr. Zhi Jian Wu Li, brother of our chairman and son of our vice chairman, also owned a 7.1% equity interest in Xing through Qiao Xing Trust and Wu Holdings Ltd. as of June 24, 2011. Accordingly, Mr. Rui Lin Wu, who has a controlling influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval at our parent company, also has substantial control over our business.

Without the consents of Xing, Mr. Rui Lin Wu and the other shareholders of Xing, we could be prevented from entering into transactions that could be beneficial to us. The interests of Xing, Mr. Rui Lin Wu and the other shareholders of Xing may differ from the interests of our other shareholders. Xing, Mr. Rui Lin Wu and the other shareholders of Xing may take actions that could have a material adverse impact on us, such as influencing the way we allocate our resources, restricting our entry into certain kinds of businesses and preventing us from pursuing certain business opportunities that may be beneficial and profitable to us and our other shareholders. In addition, this concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ordinary shares. These actions may be taken even if they are opposed by our other shareholders.

On September 9, 2010, we announced that we had received a proposal from our parent, Xing, regarding the acquisition of all of the outstanding ordinary shares of our company that Xing did not already own, by way of a Scheme of Arrangement (the "Proposed Transaction") under British Virgin Islands law. The Proposed Transaction, if completed, would have resulted in us becoming a privately held company. The shareholders' meeting with respect to the Proposed Transaction was scheduled to convene on April 7, 2011. However, the quorum requirement for the shareholders' meeting was not met. As a result, the meeting was adjourned permanently and the proposed transaction was abandoned. For more detailed information regarding the Proposed Transaction, see our periodic filings with the SEC.

As a "controlled company," we are exempt from certain NYSE corporate governance requirements, which may result in our independent directors not having as much influence as they would if we were not a controlled company.

Table of Contents

We are a “controlled company” as defined under Section 303A of the New York Stock Exchange Listed Company Manual, or the NYSE Manual, because one of our shareholders holds more than 50% of our voting power. As a result, for so long as we remain a controlled company as defined under that rule, we are exempt from, and our shareholders generally are not provided with the benefits of, some of the NYSE corporate governance requirements, including that:

- our compensation committee must be composed entirely of independent directors; and
- our nomination committee must be composed entirely of independent directors.

Relying on this exemption, Mr. Zhi Yang Wu, who does not satisfy the “independence” requirements of Section 303A of the NYSE Manual, serves as a member of our nominating and corporate governance committee and compensation committee.

Risks Related to Doing Business in China

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially adversely affect our competitive position.

We conduct substantially all of our operations and generate most of our revenues in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;
- the early stage of development of the market-oriented sector of the economy;
- the rapid growth rate;
- the higher level of control over foreign exchange; and
- the allocation of resources.

While the PRC economy has grown significantly since the late 1970s, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over the telecommunications industry, capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways. For example, efforts by the PRC government to manage the pace of growth of the PRC economy could result in decreased capital expenditure by mobile telecommunication network operators, which in turn could reduce demand for our products.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of mobile communications investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our business and prospects. In particular, any adverse change in the PRC government’s policies towards the mobile communications industry may have a material adverse effect on our business.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiary in the PRC, CECT, which is a foreign-invested enterprise in China. CECT is generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available

to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

[Table of Contents](#)

We rely principally on dividends and other distributions on equity paid by our operating subsidiary to fund our cash and financing requirements, but such dividends and other distributions are subject to restrictions under PRC law. Limitations on the ability of our operating subsidiary to pay dividends or other distributions to us could have a material adverse effect on our ability to grow, make investments or acquisitions, pay dividends to you, and otherwise fund and conduct our business.

We are a holding company and conduct substantially all of our business through our operating subsidiary, CECT, which is a limited liability company established in China. We rely on dividends paid by CECT for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations. In particular, regulations in the PRC currently permit payment of dividends by CECT to us only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. CECT is also required to set aside no less than 10% of its after-tax net income each year as reserve funds unless such reserve funds, after making up losses of preceding years, have reached 50% of the registered capital, and these reserves are not distributable as dividends. Moreover, if CECT incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of CECT to pay dividends or other distributions to us could have a material adverse effect on our ability to grow, make investments or acquisitions, pay dividends to you, and otherwise fund or conduct our business.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

Most of our revenues and expenses are denominated in Renminbi. Under PRC law, the Renminbi is currently convertible under the “current account,” which includes dividends and trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans. Currently, CECT may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future. Since a significant amount of our future revenues will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China that are denominated in foreign currencies.

Foreign exchange transactions by CECT under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if CECT borrows foreign currency through loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance CECT by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the NDRC, the Ministry of Commerce, or MOFCOM, or their respective local counterparts. These limitations could affect the ability of CECT to obtain foreign exchange through debt or equity financing.

Recent PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiary, limit our PRC subsidiary’s ability to distribute profits to us, or otherwise materially and adversely affect us.

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which took effect on November 1, 2005. In May 2007, SAFE issued the Notice of the State Administration of Foreign Exchange on Operating Procedures Concerning Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 106. Notice 75 and Notice 106 require PRC residents, including both legal persons and natural persons, to register with the competent local SAFE branch before establishing or controlling any company outside of China, referred to as an “offshore special purpose company,” for the purpose of acquiring any assets of or equity interest in PRC companies and raising fund from overseas. In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch, with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. If any PRC shareholder of any offshore special purpose company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore special purpose company. The PRC residents who have already incorporated or gained control of offshore entities that had completed onshore investments in the PRC before Notice 75 took effect must register with the relevant local SAFE branch on or before March 31, 2006. In addition, such PRC residents are required to repatriate into the PRC all of their dividend profits or capital gains from their shareholdings in the offshore entity within 180 days of their receipt of such profits or gains. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

A number of terms and provisions in Notice 75 and Notice 106 remain unclear. Because of uncertainty over how the Notice 75 and Notice 106 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with the Notice 75 and Notice 106 by our or our parent company's PRC resident beneficial holders. In addition, such PRC residents may not always be able to complete the necessary registration procedures required by the Notice 75 and Notice 106. We also have little control over either our present or prospective direct or indirect shareholders or the outcome of such registration procedures. A failure by our or our parent company's PRC resident beneficial holders or future PRC resident shareholders to comply with the Notice 75 and Notice 106, if SAFE requires it, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiary's ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

[Table of Contents](#)

In addition, the NDRC promulgated a rule in October 2004, or the NDRC Rule, which requires NDRC approvals for overseas investment projects made by PRC entities. The NDRC Rule also provides that approval procedures for overseas investment projects of PRC individuals shall be implemented with reference to this rule. However, there exist extensive uncertainties in terms of interpretation of the NDRC Rule with respect to its application to a PRC individual's overseas investment, and in practice, we are not aware of any precedents that a PRC individual's overseas investment has been approved by the NDRC or challenged by the NDRC based on the absence of NDRC approval. Our current beneficial owners who are PRC individuals did not apply for NDRC approval for investment in us. We cannot predict how and to what extent this will affect our business operations or future strategy. For example, the failure of our shareholders who are PRC individuals to comply with the NDRC Rule may subject these persons or our PRC subsidiary to certain liabilities under PRC laws, which could adversely affect our business.

We face risks related to health epidemics and other outbreaks.

Adverse public health epidemics or pandemics could disrupt business and the economies of the PRC and other countries where we do business. From December 2002 to June 2003, China and other countries experienced an outbreak of a highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated new cases of SARS were subsequently reported, most recently in central China in April 2004. During May and June of 2003, many businesses in China were closed by the PRC government to prevent transmission of SARS. Some countries, including China, have encountered incidents of the H5N1 strain of avian influenza from 2003. From April 2009, the U.S. and certain other countries and regions, including China, reported the occurrence of H1N1 influenza. We are unable to predict the effect, if any, that any health epidemics may have on our business. In particular, any future outbreak of SARS, avian influenza, H1N1 influenza or other similar adverse public developments may, among other things, significantly disrupt our business, including limiting our ability to travel or ship our products within or outside China and forcing us to temporarily close our manufacturing facilities. Furthermore, an outbreak may severely restrict the level of economic activity in affected areas, which may in turn materially adversely affect our financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any outbreak of H1N1 influenza, avian influenza, SARS or any other epidemic.

Risks Related to Investment in our Shares

The market price for our ordinary shares may be highly volatile.

The trading price of our ordinary shares has been and may continue to be subject to wide fluctuations. During the period from May 3, 2007, the first day on which our ordinary shares were listed on the NYSE, until June 24, 2011, the trading prices of our ordinary shares ranged from \$1.32 to \$15.48 per ordinary shares and the closing sale price on June 24, 2011 was \$1.99 per ordinary share. The market price for our ordinary shares may continue to be volatile and subject to wide fluctuations in response to factors including the following:

- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- announcements regarding intellectual property infringement litigation involving us or other mobile handset manufacturers or the issuance of patents to us or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other mobile handset companies;
- additions or departures of our directors, executive officers and key research personnel; and
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares.

In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may have a material adverse effect on the market price of our ordinary shares. In particular, changes in the market price of the shares of our parent company, Xing, may result in changes to the market price of our ordinary shares, even if the underlying reasons for the changes in the share price of Xing do not directly relate to our business. In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States may affect the volatility in the price and trading volumes for our ordinary shares. Some of these companies have experienced significant volatility, including significant price declines after their initial

public offerings. The trading performances of these companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC companies listed in the United States and consequently may impact the trading performance of our ordinary shares.

Substantial future sales or perceived sales of our ordinary shares in the public market could cause the price of our ordinary shares to decline.

Sales of our ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ordinary shares to decline. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of our ordinary shares, the prevailing market price for our ordinary shares could be adversely affected.

Table of Contents

In addition, we may issue additional ordinary shares for future acquisitions. If we pay for our future acquisitions in whole or in part with additionally issued ordinary shares, your ownership interests in our company would be diluted and this, in turn, could have a material adverse effect on the price of our ordinary shares.

Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares.

Our amended and restated articles of association limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ordinary shares may fall and the voting and other rights of the holders of our ordinary shares may be materially adversely affected.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the U.S. Securities Act of 1933, as amended, or the Securities Act or an exemption from the registration requirements is available. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, in the event we conduct any rights offerings in the future, you may be unable to participate in such offerings and may experience dilution in your holdings.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are a company incorporated under the laws of the British Virgin Islands. We conduct our operations in China and substantially all of our assets are located in China. In addition, our directors and executive officers, and some of the experts named in this annual report, reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the British Virgin Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

Since we are a British Virgin Islands company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States.

Under the laws of some jurisdictions in the United States, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith, and actions by controlling shareholders which are obviously unreasonable may be declared null and void. British Virgin Island law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in some U.S. jurisdictions. In addition, the circumstances in which a shareholder of a British Virgin Islands company may sue the company derivatively, and the procedures and defenses that may be available to the company, may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders of a company organized in the United States.

Furthermore, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under the laws of most U.S. jurisdictions.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

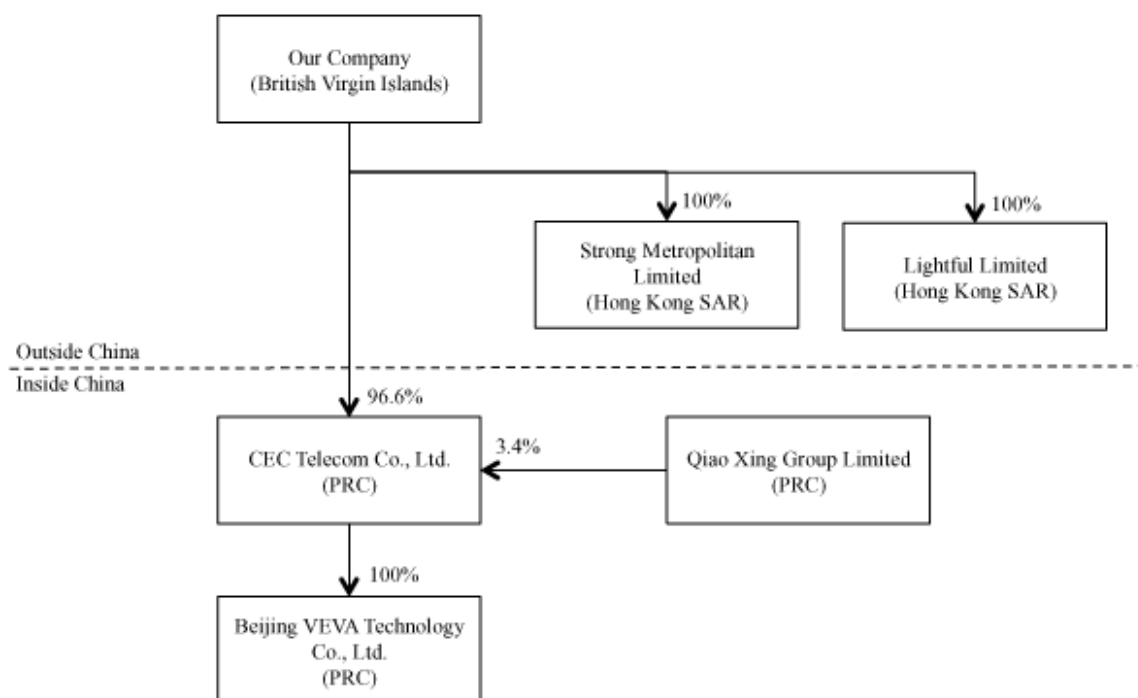
We are a British Virgin Islands company incorporated on January 31, 2002. Our ordinary shares were listed on the NYSE on May 3, 2007.

We conduct substantially all of our business through CECT, our operating subsidiary in the PRC in which we own a 96.6% equity interest. CECT was formed in 2000 by six PRC companies. We acquired an initial 65% ownership stake in CECT in February 2003 by

purchasing equity interests from the initial shareholders, and have increased our ownership position three times. In July 2005, we increased our equity ownership to 90% through a purchase from a minority shareholder of CECT and in July 2006 we further increased our equity ownership to 93.4% through a cash capital injection into CECT in which the other CECT shareholder did not participate. In June 2007, we made another cash capital injection into CECT in which the other CECT shareholder did not participate and increased our equity ownership to 96.6%. The remaining 3.4% equity interest in CECT is currently held by Qiao Xing Group Limited, or Qiao Xing Group, a private company controlled by Messrs. Zhi Yang Wu and Rui Lin Wu, our chairman and vice chairman, respectively. Qiao Xing Group currently does not intend to transfer this 3.4% equity interest in CECT to us or any related party. CECT has a branch located in Huizhou City, Guangdong Province, China.

Table of Contents

Set forth below is a chart showing our current corporate structure as of June 24, 2011:



Beijing VEVA Technology Co., Ltd., incorporated in March 2009, is principally engaged in the retailing of mobile phones and accessories in the PRC. We established Strong Metropolitan Limited and Lightful Limited in the Hong Kong SAR in June 2011 to serve as holding companies for our future investments in the PRC.

As of the date of this annual report, Xing, a British Virgin Islands company whose ordinary shares have been listed on the Nasdaq Global Market (Nasdaq: XING) since February 1999, owned approximately 55.6% of our outstanding share capital.

On September 9, 2010, we announced that we had received a proposal from our parent, Xing, regarding the acquisition of all of the outstanding ordinary shares of our company that Xing did not already own, by way of a Scheme of Arrangement (the “Proposed Transaction”) under British Virgin Islands law. The Proposed Transaction, if completed, would have resulted in us becoming a privately held company. The shareholders’ meeting with respect to the Proposed Transaction was scheduled to convene on April 7, 2011. However, the quorum requirement for the shareholders’ meeting was not met. As a result, the meeting was adjourned permanently and the proposed transaction was abandoned. For more detailed information regarding the Proposed Transaction, see our periodic filings with the SEC.

Our principal executive offices are located at 30th Floor, Tower A, Eagle Run Plaza, No. 26 Xiaoyun Road, Chaoyang District, Beijing 100016, People’s Republic of China. Our telephone number at this address is (86-10) 5731-5500 and our fax number is (86-10) 5731-5636. Our registered office in the British Virgin Islands is at Romasco Place, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands.

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is www.qxmc.com. The information contained on our website does not constitute a part of this annual report.

B. Business Overview

We are a domestic manufacturer of mobile handsets in China. We manufacture and sell mobile handsets based primarily on the GSM global cellular technologies. We operate our business primarily through CECT, our 96.6% owned subsidiary in China. Our products have been primarily sold under the “CECT” brand name and the “VEVA” brand name, which we launched in May 2008.

We develop, produce and market a wide range of mobile handsets. We sold approximately 2.12 million and 1.24 million handset products in 2009 and 2010, respectively. The average selling price of our handsets was RMB735 in 2009 and RMB672 (\$102) in 2010.

Our in-house handset development teams are based in a research and development center in Beijing. We closed our research and development center in Huizhou in 2010. Our in-house research and development teams developed a number of handset designs and

certain technologies used in producing our handsets, such as mobile phone application software, user-friendly product interfaces and printed circuit board designs, including baseband designs and radio frequency circuit designs that contribute to our ability to produce differentiated handsets. We also source certain software and hardware designs used in producing our handsets from third-party designers to complement our in-house development capabilities.

We currently have one handset manufacturing facility in Huizhou City, Guangdong Province, China. This facility is equipped with three SMT lines and seven assembly and testing lines. We historically outsourced and continue to outsource the manufacturing of a substantial portion of our products to EMS providers. We produced approximately 0.21 million units in our Huizhou facility in 2009 and 7,000 units in 2010. We sourced approximately 1.91 million units in 2009 and 1.22 million units in 2010 through EMS providers.

[Table of Contents](#)

Substantially all of our products are sold in China. We sell our products primarily to our national distributors, provincial distributors and TV direct sales distributors. These distributors resell our products to end customers either directly or through their own distribution networks, which are typically composed of local distributors and retail outlets. As of June 24, 2011, our distribution network included four national distributors, 38 provincial distributors and three TV direct sales distributors. In addition, certain of our distributors and other third parties provide repairs and other after-sales services to our end customers through their after-sales service centers located throughout China.

PRC Mobile Handset Industry

In recent years, China's mobile handset market has experienced rapid growth and development. China is the world's largest wireless telecommunication market in terms of subscribers. We believe that China will continue to play a key role in the development of the global telecommunication industry and remain one of the largest wireless subscriber markets in the world for the foreseeable future.

Moreover, three mobile telecommunication operators in China were granted 3G licenses in January 2009 by the Chinese government. 3G technology enables users to transmit larger volumes of data and more sophisticated content, such as streaming media and multi-player games, more quickly. The more extensive use of data transmission, as facilitated by new and upgraded technologies and networks, is expected to lead to increased demand for enhanced wireless value-added services and, therefore, increased demand for mobile phones with more advanced technologies in China.

The mobile phone penetration rate in China is still considerably lower than most of the more developed countries and we believe that it has the potential to increase significantly in the next several years. Historically, the mobile telecommunication subscription and handset demand growth took place in China's large cities such as Beijing, Shanghai and Guangzhou. More recently, however, the demand growth is increasingly driven by medium and small cities and rural areas, which still have low penetration rates and benefit from favorable government policies, such as universal service obligations imposed upon mobile telecommunication operators in China, and the increasing affordability of handsets, mainly due to the higher average standard of living across China.

We have observed the following key industry trends and characteristics in the mobile handset industry in China:

Growing affordability of mobile handsets

Living standards in China continue to improve and the cost of wireless network usage and mobile handsets continues to decrease through the development of technology and intensifying competition. Mobile handsets have evolved from luxury products into common electronic consumer goods in China with ownership becoming increasingly affordable. These factors drive both the continued growth of first-time users and replacement demand from existing users.

Continuing growth increasingly driven by replacement demand

In addition to growth from first-time mobile phone users, handset demand growth in China has increasingly been driven by replacement demand and, to a lesser extent, secondary phones. Key factors driving this trend include the increasing affordability of mobile phones and the incessant and rapid improvement in their functionality and usefulness through technological innovations.

Increasing demand for differentiated mobile handsets with more functions and personalized features

As mobile phones have become more sophisticated, Chinese mobile telecommunication operators have begun to make more data and other wireless value-added services available on handsets. Doing so is enabling a growing convergence between wireless communications and traditional media, such as TV, radio and magazines, and new media such as the Internet. The result is that mobile phones are now more than just communication devices and are increasingly being used for a variety of personal, work and entertainment purposes. This convergence has made mobile phones more useful for consumers in China and has increased demand for sophisticated, yet affordable, handsets. Furthermore, we believe consumers in China, particularly younger generations, often view mobile handsets as fashion accessories, preferring customized and distinctive mobile handset products with greater functionality.

As new services and mobile handset functions become available to customers, we believe that more wireless telecommunication subscribers will seek to upgrade their mobile handsets to newer products on a more regular basis.

We believe the future success of mobile handset producers in China will, to a large extent, depend on their ability to offer distinctive products that stand out from those offered by their competitors. Successful products are typically those with distinctive features that are popular with different users. The product life cycle of mobile handsets has been shortened significantly compared to the recent past as new handsets with advanced features and different look and feel are continually being launched in this fast evolving market. To succeed, mobile handset brand owners must constantly and rapidly introduce to the market new handsets with enhanced look and feel and functionality but expect to sell them in lower volumes for each model.

Wireless network technologies have been continually evolving at a rapid pace. Most mobile handsets are currently based on 2G or 2.5G wireless technology. 2.5G technology enables mobile handsets to offer more features, such as Internet access through mobile phones using wireless application protocol technology and multimedia messaging service. Bridging between 2.5G and 3G, 2.75G technology allows data transmission speed of up to 384Kbps. This enhanced data speed has extended the service scope of current wireless infrastructure before the new 3G networks were deployed. 3G allows a significantly higher data transmission speed at a maximum of 2 to 2.5 Mbps, which enables users to access more features and applications on their mobile phones, such as online mobile gaming and video communication or downloading. In January 2009, MIIT issued 3G licenses to China Mobile (TD-SCDMA), China Unicom (CDMA2000) and China Telecom (WCDMA).

[Table of Contents](#)

Highly competitive market

Competition in the mobile handset market in China is intense. While international mobile handset brand owners have achieved substantial market share, new Chinese mobile handset brands and handsets are continually being introduced to the market. We believe competition is being fought on multiple fronts such as cost, functionality and industrial design. The market is continuously evolving and the ability to quickly interpret and adapt to trends is a key driver of success.

Increasing presence of mobile telecommunication operators and large electronic retailers in handset distribution

As in international markets, mobile telecommunication operators and large electronics retailers have become increasingly important as distribution channels in recent years. Mobile telecommunication operators are increasingly trying to differentiate themselves by launching customized services, which in turn often require customized handsets that can support these services. Coupled with this, mobile telecommunication operators are buying more handsets as they use handset promotions in order to win and keep customers. Large electronics retail chains, such as GOME Electrical Appliances Holdings Limited and Suning Appliance Co., Ltd., are rapidly expanding throughout China and their proliferation is contributing to the increase in consumer spending on personal electronics.

We cannot assure you that we will benefit from the projections and trends regarding the mobile handset industry set forth in this section.

Our Products

We manufacture and sell a wide variety of mobile handsets that are primarily based on the GSM global cellular technologies. We sold approximately 2,714,000, 2,123,000 and 1,238,000 handset products in 2008, 2009 and 2010, respectively. The average selling prices of our handsets were RMB788, RMB735 and RMB672 (\$102) in 2008, 2009 and 2010, respectively.

We have devoted significant resources to developing and producing handset products with various features that are targeted at different consumer segments. In 2008, 2009 and 2010, we rolled out 23, 17 and seven new handset models, respectively. As of December 31, 2010, we offered approximately 12 different handset models to our customers. These products include features such as multimedia functions, touch-screen pads, large LCD screens, ultra-long standby battery, EDGE technology and luxury design with embedded crystals.

Mobile handset models typically have a limited economic life, which is approximately 12 to 15 months for particularly successful handsets and four to six months for most other handsets. Our higher-end and differentiated products that incorporate features which are different from our competitors' products usually have longer economic lives than our other products. The revenue we derive from a particular model typically declines as the product approaches the end of its economic life.

[Table of Contents](#)

Research and Development

The mobile handset industry is characterized by rapid technological developments, frequent launches of new products and services, changes in customer preferences and behavior, and evolving industry standards. In order to maintain our long-term profitability and financial and operating success, we must continually develop new mobile handsets that are attractive to users to replace our existing handsets as they reach the end of their economic lives. The success of our handsets will largely depend on our ability to anticipate and effectively respond to changing consumer tastes and preferences.

We believe that we have strong product development capabilities for mobile handsets. Our research and development team has developed a number of distinctive handset designs and certain product and process technologies used in producing our handsets, including mobile phone application software, user-friendly product interfaces, printed circuit board designs, such as baseband and radio frequency circuit designs, production technology designs and production testing systems, that contribute to our ability to produce differentiated products. We also designed the ultra-long standby batteries used in our products, which are produced by a third-party. In 2008, 2009 and 2010, our total research and development expenses were RMB29.2 million, RMB36.4 million and RMB18.9 million (\$2.9 million), respectively. As of December 31, 2010, we employed 105 research and development personnel, which included personnel specialized in industrial design, mechanical design, software and hardware development, project management and quality assurance.

With our accumulated knowledge and experience, we have been able to increasingly shorten our product development cycles. Currently, our product development cycle, from product concept defining to mass production, is typically six to nine months. In 2008, 2009 and 2010, we designed, developed and rolled out 23, 17 and seven new handset models, respectively.

Our research and development effort has been, and will continue to be, directed primarily at enhancing our ability to design and develop mobile handsets tailored for the PRC market and differentiated from the products of our competitors. As part of our cost reduction efforts, we also direct part of our research and development resources to increase the percentage of locally sourced raw materials and components used in producing our handsets.

Manufacturing

Manufacturing facilities

Currently, we mainly manufacture our products in an approximately 3,700 square meter manufacturing facility located in Huizhou City, Guangdong Province, China, which commenced operations in September 2004. This facility is located on property we lease from third parties. As of December 31, 2010, our Huizhou facility was equipped with three SMT lines and seven assembly and testing lines, with annual production design capacity of 1.5 million units. Our design capacity represents the maximum output of our existing equipment based on their design specifications. However, there is typically a substantial difference between our design capacity and our actual output due to various factors, including the high number of different models we produce and the time required to adjust the production line and conduct test production for each new model change. We produced approximately 714,000, 207,000 and 7,000 units of our own handsets in 2008, 2009 and 2010, respectively, at our Huizhou facility. As of December 31, 2010, we had an aggregate of 86 manufacturing employees working in this facility.

We also outsource the production of a substantial portion of our products to EMS providers, thereby leveraging their production process technology and capability. Under this arrangement, the EMS providers establish the production lines mainly using their own equipment while we provide product design as well as certain equipment and all components used for the production. Our EMS provider is also obligated to provide after-sales services for products they manufactured for a certain period of time. The production volumes under such arrangements were approximately 2,040,000 units in 2008, 1,916,000 units in 2009 and 1,216,000 units in 2010. We believe that our business is not substantially dependent on any individual EMS provider.

In addition, we provide handset processing services to certain handset producers. Under this arrangement, we receive raw materials and components from third parties and process them into handsets or into handset printed circuit boards, or PCB. We produced approximately 1,106,000, 803,000 and 331,000 units of handsets and handset PCB under such arrangement in 2008, 2009 and 2010, respectively.

Raw materials and components

Our raw materials and components costs accounted for 92.5% of our total cost of goods sold in 2008, 94.7% in 2009 and 88.7% in 2010. The principal raw materials and components used in the production of our mobile handsets are chipsets, molds, LCD screens, casings, cameras, batteries and keypads.

We source raw materials and components based on price and quality. We believe continuing price negotiations with our suppliers have contributed to our profitability in the past few years. We source chipsets and high-end LCD screens and cameras primarily from

overseas suppliers due to the better quality of their products. For example, we source chipsets from MediaTek Inc. and Philips NXP and LCD screens from Truly Semiconductors Ltd. and Foxconn Technology Group. As part of our continuing cost control efforts, we also locally source a significant portion of the raw materials and components used in our manufacturing process, including primarily casing, batteries, cable and low-end LCD screens and cameras. The use of locally sourced raw materials and components also shortens our lead order time and provides us with better access to technical and other support from our suppliers. We also enjoy volume discounts for purchasing certain raw materials and components from our suppliers.

We seek to diversify the supply sources of raw materials and components and to date have not experienced any material disruption of our manufacturing operations due to insufficient supply of raw materials or components. We do not anticipate any significant interruption in the supply of our raw materials and components that would have a material impact on our business in the future. The aggregate costs attributable to our five largest raw materials and components suppliers in 2008, 2009 and 2010 were 72.5%, 88.3% and 97.4%, respectively, of our total purchases during the relevant periods. However, we believe that our business is not substantially dependent on any individual supplier.

[Table of Contents](#)

We purchase raw materials and components using both forecast orders and purchase orders. To ensure our suppliers will have sufficient time to prepare the components according to our requirements, we typically make a forecast order three or four months before the expected delivery time. The forecast order is not binding on either party. We then make a confirmed purchase order four to eight weeks prior to the delivery time. We separately negotiate the price for each purchase order and typically do not enter into long-term supply contracts.

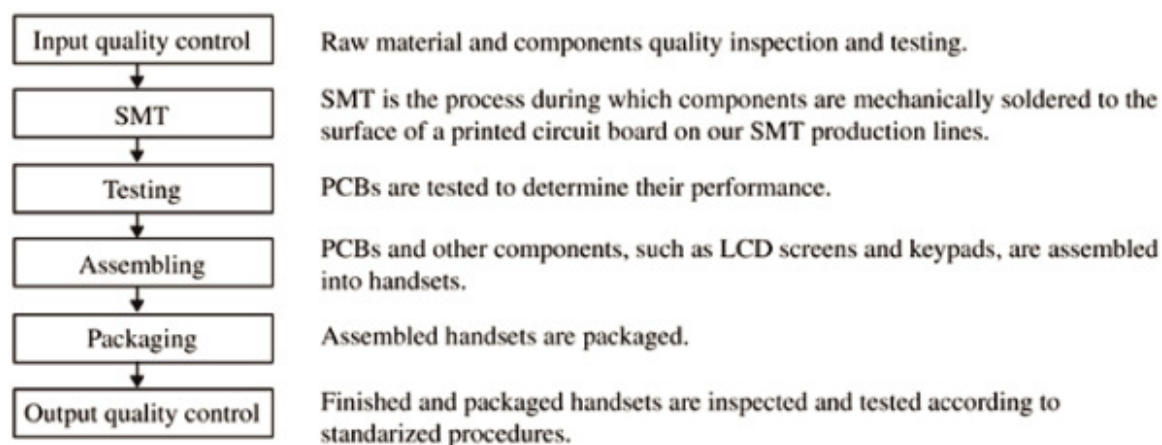
We maintain different inventory levels of our raw materials, depending on the type of product and lead time required to obtain additional supplies. We seek to maintain reasonable inventory levels that achieve a balance between our efforts to reduce our storage costs and optimize working capital, and the need to ensure that we have access to adequate supplies. As of December 31, 2009 and 2010, we had RMB77.3 million and RMB43.9 million (\$6.7 million), respectively, of raw materials in inventory.

Production management

We closely monitor our inventory levels based on sales levels. We typically maintain an aggregate of approximately 30,000 units of inventory of our finished products. We plan our production on a monthly basis based on anticipated demand and make periodic adjustments to our actual production and inventory levels based on actual orders received.

Manufacturing process

The following diagram shows the general production stages for our handsets:



Quality control and certifications

Our quality control procedures include raw material and components quality inspection and testing. In addition, we have established inspection points at key production stages to identify product defects during the production process. Our finished handset products are inspected and tested according to standardized procedures. Moreover, we provide regular training and specific guidelines to our operators to ensure that production processes meet our quality inspection and other quality control procedures.

Our handset manufacturing facility obtained the ISO 9001 quality management system certification in 2000.

Distribution and Marketing

Distribution network

Substantially all of our products were sold to customers in mainland China. We sell our products primarily to our national distributors, provincial distributors and TV direct sales distributors that resell our products to end customers either directly or through their own distribution networks, which are principally composed of local distributors and retail outlets. As of June 24, 2011, our distribution network included four national distributors, 38 provincial distributors and three TV direct sales distributors.

We enter into distribution agreements with our national and provincial distributors. Under these agreements, our national distributors are granted the exclusive rights to distribute certain of our products in China. Our provincial distributors are granted the exclusive rights to distribute selected products within their respective territories. Under such exclusive distribution arrangements, no distributor is allowed to sell the same product in the same region with other distributors, which effectively eliminates competition among our distributors. We provide our distributors with product and training guidelines for each of our products and require them to observe these guidelines and provide trainings to employees working at the retail outlets. We regularly monitor and review our distributors'

sales performance and compliance with our guidelines and contract terms. Our distributors engage in self-initiated promotional activities within the scope of guidelines provided by us, and bear the costs associated with such activities.

Sales generated by our five best-performing distributors accounted for approximately 85.1%, 86.4% and 83.1% of our revenue in 2008, 2009 and 2010, respectively, and the best-performing distributor accounted for approximately 52.7%, 19.9% and 25.5% of our revenue in the same periods. Our distribution agreements generally have a term of one year, but in some cases may extend as long as five years for key distributors. However, the best-performing distributors varied and their respective percentages of our revenue fluctuated significantly in each of the above periods. Although we rely on distributors for the sale, marketing and after-sales support of our products, we believe our business is not substantially dependent on any individual distributor.

[Table of Contents](#)

Marketing

We market our handsets through traditional mass media channels, including television, newspapers, magazines, the Internet and outdoor media, such as billboards. In addition, we also provide guidelines to our distributors for conducting promotional activities at retail outlets, such as offering products at discount prices during holiday seasons.

Pricing

We set the prices of our products based on our development and production costs, the prices of competing products and end-user feedback we collect through our distributors, and review and adjust our product pricing periodically based on these factors. Due to rapidly evolving technology developments that lower our production costs, intense market competition and changes of consumer tastes and preferences, we typically experience gradual price declines during the economic lives of our products.

To avoid pricing competition among our distributors, we set retail price-setting guidelines for our products. Under these guidelines, distributors are permitted to sell our products within a pre-determined range, which provides them with limited flexibility in terms of pricing.

After-Sales Services

We have established uniform replacement and warranty policies for each of our products. Certain of our distributors and other third-parties provide after-sales services for our products, including handset replacements, components replacements and repairs, through after-sales service centers located throughout China. We enter into agreements with those service providers, under which we are obligated to bear the costs of materials used for after-sales services provided during the warranty period. The after-sales service providers bear all other expenses, including cost of materials for services provided after the warranty period has expired as well as labor expenses. We are also responsible for the training of after-sales service personnel.

Intellectual Property and Proprietary Rights

We utilize our internally developed technologies and intellectual property rights to develop, design and manufacture our handset products. Our internally developed technologies and intellectual property rights are an important element of our business operations and a competitive tool for us.

We rely on trade secret protection and confidentiality agreements to protect our proprietary information and know-how. Our management and each of our research and development personnel have entered into a standard annual employment contract, which includes a confidentiality clause and a clause acknowledging that all inventions, designs, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, it may be possible for third parties to obtain and use, without our consent, intellectual property that we own or are licensed to use. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We have not applied for patents or registered copyrights for most of our intellectual property and our failure to adequately protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.”

We have not applied for patents or registered copyrights in China for most of our inventions, original works of authorship, developments and improvements relating to the mobile handsets we produce. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We have not applied for patents or registered copyrights for most of our intellectual property and our failure to adequately protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.” Although we believe that, as of today, patents and copyrights have not been essential to maintaining our competitive market position, we intend to assess appropriate occasions in the future for seeking patent and copyright protections for those aspects of our business that provide significant competitive advantages.

In April 2009, we obtained the trademark registration certificate from the China Trademark Office for one trademark relating to our brand name “CECT”. In October 2010, we obtained three other trademarks relating to our brand name “CECT” with the China Trademark Office. In addition, as of December 31, 2010, we had 41 approved trademarks and 87 trademark applications pending with the China Trademark Office.

Technology Licenses and Agreements

In addition to our internally developed technologies and know-how, we also depend on technologies licensed from third parties to design and manufacture our products, including, for example, third-party software that supports wireless application protocol and multimedia messaging service functions in our handsets.

We believe that none of the license agreements is critical to our business and that we can identify alternative technologies and technology providers without undue disruption to our business and operations. However, we cannot assure you that the loss of one or more of these licenses will not have a material adverse effect on our business. See “Item 3. Key Information—D. Risk Factors—Risk Related to Our Business—We rely on a number of technologies licensed from third parties and the loss of some or all of these licenses or failure to renew them on a timely basis could interrupt our production and have a material adverse impact on our business.”

[Table of Contents](#)

Competition

The mobile handset manufacturing industry in China is intensely competitive. Industry participants compete with each other mainly on the basis of the breadth and depth of their product portfolios, price, operational and manufacturing efficiency, technical performance, product features, quality, customer support and brand recognition. We face significant competition from a number of competitors, including domestic mobile handset producers such as Bird Ningbo Co., Ltd., Konka Group Co., Ltd., Beijing Tianyu Communication Equipment Co. Ltd., Gionee Communication Co., Ltd., and Haier (Qingdao) Telecom Co., Ltd. and a number of large multinational mobile handset producers, such as Apple Inc., Nokia Corporation, Motorola, Inc., Samsung Electronics Co., Ltd., Sony Ericsson Mobile Communications (China) Co. Ltd., and LG Electronics (China) Ltd. Many of our competitors have longer operating histories, greater name recognition, significantly larger market shares, access to larger customer bases and significantly greater economies of scale and financial, sales and marketing, manufacturing, distribution, technical and other resources than we do. Some of these competitors have used, and we expect will continue to use, more aggressive pricing strategies, greater incentives and subsidies for distributors, retailers and customers, more successful design approaches and more advanced technologies. In addition, some competitors have chosen to focus on building products based on commercially available components, which may enable them to introduce these products faster and with lower levels of research and development spending than us.

International mobile handset makers tend to have established and well-known brands, which we believe Chinese consumers tend to find desirable relative to domestic Chinese brands. Domestic mobile handset manufacturers in China generally compete on style, functionality, price, quality, after-sales service and breadth of products, and are constantly exposed to the risk that competitors may implement new technologies, or may offer lower prices, additional products or services or other incentives that they are not able to offer.

Since we commenced our handset business operations, we have experienced significant price and margin pressures due to intense market competition. Price competition may become even more intense in the future and we cannot guarantee we will be able to maintain the current level of our profit margins.

In addition, we also face competition from unlicensed mobile handset manufacturers in China that make mobile handsets without the requisite governmental approvals and licenses. However, we believe that these manufacturers are able to keep their production costs low primarily as a result of tax avoidance and non-payment of various fees that are required for all licensed products. Despite recent government actions against many of these unlicensed manufacturers, we believe that such mobile handsets still account for a significant portion of all mobile handsets sold in China. If the PRC government is not successful in preventing these unlicensed mobile handset manufacturers from producing and selling their mobile handsets, our market share and our results of operations could be materially adversely affected.

As a result of developments in our industry, we also expect to face new competition from companies in related industries, such as consumer electronics manufacturers. Additionally, we face increasing competition from mobile telecommunication operators that are increasingly offering mobile devices under their own brands.

Environmental Matters

Our manufacturing facilities are subject to various pollution control regulations with respect to noise and air pollution and the disposal of waste and hazardous materials. We are also subject to periodic inspections by local environmental protection authorities. We believe that we have obtained all requisite environmental permits and approvals to conduct our business.

Employees

As of December 31, 2010, we had 278 full-time employees. The following table sets forth the number of our full-time employees by function as of December 31, 2008, 2009 and 2010, respectively:

Functions	As of December 31,		
	2008	2009	2010
Manufacturing and engineering	373	378	89
General and administration	66	47	53
Marketing and sales	85	42	31
Research and development	168	133	105

We offer our employees competitive compensation packages and various training programs, and as a result we have been able to attract and retain qualified personnel.

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We are required under PRC law to make

contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The total amount of contributions we made to employee benefit plans for the years ended December 31, 2008, 2009 and 2010 was approximately RMB4.6 million, RMB6.6 million and RMB5.3 million (\$0.8 million), respectively.

We adopted our 2007 equity incentive plan in March 2007 to provide an additional means to attract, motivate, retain and reward selected directors, officers, managers, employees and other eligible persons. As of June 24, 2011, 327,503 restricted shares remained unvested, and 8,239,914 ordinary shares remained reserved for issuance under this plan.

We enter into a standard employment agreement with our management and research and development personnel that include confidentiality and non-competition provisions. These contracts include a covenant that prohibits each of them from engaging in any activities that compete with our business during, and for three years after, the period of their employment with our company. Under current national and local PRC laws and regulations, which vary by jurisdiction, we cannot assure you that the non-competition provisions will be enforceable in all cases.

[Table of Contents](#)

We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations. Our employees are not covered by any collective bargaining agreement.

Insurance

Qiao Xing Telecommunication Industry Co., Ltd., an independent third party, maintains property insurance for its premises in Huizhou, in which our current handset production facility is located. The aggregate maximum amount covered by this policy is equivalent to approximately RMB130.9 million (\$19.8 million). We also maintain property insurance for our automobiles. We do not maintain business interruption insurance, product quality insurance or key-man life insurance. We believe our insurance coverage is customary and standard for companies of comparable size in comparable industries in China. However, we cannot assure you that our existing insurance policies are sufficient to insulate us from all losses and liabilities that we may incur.

Our Principal Facilities

Our corporate headquarters are located in approximately 1,100 square meters of office space in the Eagle Run Plaza in Beijing for which we have entered into a lease which will expire in October 2013. Our handset manufacturing facility is located on a leased property of approximately 3,700 square meters in Huizhou. We believe that our existing facilities are adequate and suitable to meet our present needs and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

Regulations

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

Chinese Regulatory Framework for the Telecommunications Industry

Overview

China's telecommunications industry, including the mobile handset manufacturing industry, is heavily regulated, primarily through MIIT, which is under the supervision of the State Council. In addition, a number of other government departments, such as the NDRC, also have regulatory authority over various aspects of the telecommunications industry.

The telecommunications industry in China is regulated at both the national and provincial levels. At the national level, MIIT is the primary regulatory authority and, together with other regulatory authorities, such as the NDRC, is responsible for, among other things:

- Formulating and enforcing industry policies, regulations and technology standards;
- Granting network access licenses for telecommunications equipment;
- Supervising the quality and the operation of telecommunications equipment connected to public telecommunication networks; and
- Together with other relevant regulatory authorities, formulating the macro-planning of mobile telecommunications equipment production.

At the provincial level, provincial telecommunications authorities, together with other relevant regulatory authorities, are responsible for implementing and enforcing the policies and regulations formulated by MIIT, as well as other central government authorities, within their provinces.

The Chinese government is currently in the process of drafting a telecommunications law in order to establish a uniform regulatory framework for the telecommunications industry in China. However, it is not clear when the law will be adopted. Pending the adoption of the telecommunications law, the PRC Telecommunications Regulation issued by the State Council on September 25, 2000, or the Telecommunications Regulation, is currently the main regulation governing the telecommunications industry in China. The Telecommunications Regulation covers all key aspects of telecommunications operations, including, among others, access of telecommunications equipment to networks such as for use in the mobile handset industry.

MIIT license

The PRC government regulates telecommunications equipment manufacturing primarily through requiring network access licenses for telecommunications equipment, under a unified network entry approval and certification system established pursuant to the Notice Regarding the Implementation of Network Entry License System for Mobile Communications Terminal Products, promulgated on May 19, 1994 by the Ministry of Posts and Telecommunications, the predecessor of MIIT.

On May 10, 2001, MIIT promulgated the Administration Measures of the Network Access of Telecommunications Equipment. According to these measures, all telecommunications terminal equipment that is subject to the network entry license system, including mobile handsets, must obtain a network access license issued by MIIT in order for that product to have access to public telecommunications networks and to be sold in China.

To obtain a network access license, a handset manufacturer must submit an application to MIIT, together with a test report issued by a telecommunications equipment testing organization recognized by the General Administration of Quality Supervision, Inspection and Quarantine, or the GAQSIQ, and authorized by MIIT, or a product quality certificate issued by a state-designated certification agency. Handset manufacturers must place a sticker on the licensed handset bearing the mark of the network access license issued by MIIT. Each network access license is valid for three years. Handset manufacturers must submit applications to renew such licenses at least three months before the expiration of the three-year period. In addition, manufacturers must re-apply for such a license if there are any changes in the technology or certain other prescribed particulars of the licensed handset.

Table of Contents

MIIT requires handset manufacturers to implement a comprehensive quality control system and provide after-sales services for their licensed products. These requirements apply equally to both domestic and foreign manufacturers and to both equipment produced in China and equipment imported from overseas. The GAQSIQ, in consultation with MIIT, carries out on-the-spot checks to supervise the quality of the licensed telecommunications equipment and publicly announces the results of such spot checks. Any violation of these requirements may result in penalties in the form of a suspension of the network access license, a warning or a fine.

On May 7, 2003, MIIT promulgated the Administration Measures of the Supervision after Licensing on Telecommunications Equipment, regulating the rules of supervision on the quality control systems, quality of the telecommunications equipment and using condition of the access symbol.

In addition, according to the Implementation Rules for Compulsory Certification of Telecommunications Equipment issued by the Certification and Accreditation Administration of the PRC on December 7, 2001 and the Administration of Compulsory Product Certification Provisions issued on December 3, 2001 by the GAQSIQ, starting from May 1, 2002, certain telecommunications terminal products, including wireless terminal products (such as GSM and CDMA handsets) and multimedia terminal products become subject to a mandatory certification program by designated governmental agencies, known as the China Compulsory Certification, or the 3C certificate. A 3C certificate will be issued to terminal products after testing of such products against standards for health and safety, telecommunications network security and radio compatibility. Terminal products without 3C certificates cannot be sold or used in telecommunications networks in China, regardless of whether a network access license has been obtained for such product.

We have obtained 3C certificates and network access licenses for all models of the handsets we manufacture.

NDRC approval

In China, investments in fixed assets are generally subject to the approval of the NDRC (or its predecessor, the State Planning Commission). On December 31, 1998, MIIT and the State Planning Commission jointly issued the Notice of Accelerating the Development of the Mobile Telecommunications Industry. This Notice emphasizes that mobile handset production projects shall be subject to the approval of the State Planning Commission, after MIIT's examination of such projects. Furthermore, mobile handset production shall be incorporated into the national guidance plan approved annually by the State Planning Commission.

In 2004, the State Council promulgated the Decision of Investment Regime Reform, which provides that certain types of investment projects, including mobile handset production investment projects, shall be verified, instead of being approved, by the NDRC. On February 19, 2005, the NDRC promulgated the Several Regulations on the Verification of Mobile Communication Systems and Terminal Product Investment Projects, which provides that mobile handset manufacturers must first obtain verification from the NDRC, which shall solicit the opinion of MIIT before issuance of such verification.

As a result of the gradually decreasing involvement of regulatory authorities, licenses to manufacture mobile handsets have become increasingly easy for domestic enterprises to obtain. On October 9, 2007, the State Council promulgated the Decision of the Fourth Abolition and Adjustment of the Administrative Approval Items, which abolished the verification requirement for mobile handset production.

We possess all licenses and verifications necessary to conduct our business as a manufacturer and seller of mobile handsets in China under these and all other applicable laws and regulations.

Environmental Regulations

We use, generate and discharge toxic, volatile or otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. As a result, we are subject to a variety of governmental regulations related to the storage, use and disposal of hazardous materials. The major environmental regulations applicable to us include the Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Water Pollution, Implementation Rules of the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Air Pollution, the Law of the PRC on the Prevention and Control of Solid Waste Pollution, and the Law of the PRC on the Prevention and Control of Noise Pollution. We believe we are in compliance with these environmental laws and rules in all material respects.

[Table of Contents](#)

C. Organizational Structure

See “—A. History and Development of the Company.”

D. Property, Machinery and Equipment

See “—B. Business Overview—Manufacturing—Manufacturing facilities.”

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided under “Item 3. Key Information—D. Risk factors.”

Overview

We are a domestic manufacturer of mobile handsets in China. We manufacture and sell mobile handsets based primarily on GSM global cellular technologies. We sell our products primarily to our national distributors, provincial distributors and TV direct sales distributors, which resell our products to end customers in mainland China either directly or through their own distribution networks principally composed of local distributors and retail outlets.

We sold approximately 2.71 million, 2.12 million and 1.24 million mobile handsets in 2008, 2009 and 2010, respectively. Our revenues decreased by 24.2% from RMB2,153.9 million in 2008 to RMB1,632.9 million in 2009, and decreased by 47.6% to RMB855.5 million (\$129.6 million) in 2010. We recorded a net loss of RMB250.0 million in 2009 and RMB371.2 million (\$56.2 million) in 2010. Our net loss attributable to ordinary shareholders was RMB250.4 million in 2009 and RMB362.8 million (\$55.0 million) in 2010.

Key Factors Affecting Our Financial Performance

We believe the most significant factors affecting our financial performance are:

- Industry growth;
- Competition and market position;
- Product offerings and pricing;
- Cost management; and
- Working capital management.

Industry growth

In recent years, China’s mobile handset market has experienced rapid growth and development. We believe that China will continue to play a key role in the development of the global telecommunication industry and remain one of the largest wireless subscriber markets in the world for the foreseeable future.

Moreover, China’s mobile telecommunication operators have upgraded their networks to offer 3G wireless telecommunication services. 3G technology enables users to transmit larger volumes of data and more sophisticated content, such as streaming media and multi-player games, more quickly. In January 2009, MIIT issued 3G licenses to China Mobile (TD-SCDMA), China Unicom (CDMA2000) and China Telecom (WCDMA). The more extensive use of data transmission, as facilitated by new and upgraded technologies and networks, is expected to lead to increased demand for enhanced wireless value-added services and, therefore, increased demand for mobile phones with more advanced technologies in China.

The mobile phone penetration rate in China is still considerably lower than most of the more developed countries and we believe that it has the potential to increase significantly in the next several years. Historically, the mobile telecommunication subscription and

handset demand growth took place in China's large cities, such as Beijing, Shanghai and Guangzhou. More recently, however, the demand growth is increasingly driven by medium and small cities and rural areas, which still have low penetration rates and benefit from favorable government policies, such as universal service obligations imposed upon mobile telecommunication operators in China, and the increasing affordability of handsets, mainly due to the higher average standard of living across China.

[Table of Contents](#)

Competition and market position

While China's mobile handset market is expected to grow significantly, competition is intense. The market has become highly fragmented in recent years as an increasing number of handset producers have entered the market.

We face significant competition from domestic and multinational mobile handset producers. A small number of multinational players have gained significant market share in China based on greater brand name recognition among Chinese consumers. In addition, competition from domestic handset makers has intensified in recent years.

Product offerings and pricing

The mobile handset market in China, as well as globally, is characterized by rapidly changing technical standards and increasing demand for handsets with more functions and personalized features and shortening product life cycles. Pricing of mobile handsets depends principally on manufacturing costs, overall market demand, competition and, increasingly, costs associated with licensing fees, royalties and other payments for technology improvements. Increased economies of scale, technology advancements, and intensified market competition among material and component suppliers have led to significant reductions in handset prices. The selling price and corresponding gross profit margin for a particular mobile handset model typically declines over time as it reaches maturity in the product life cycle. The product life cycle for our most successful handsets has been approximately 12 to 15 months and four to six months for other handset products.

Cost management

We have adopted various measures to control our development and production costs, including utilizing locally sourced raw materials and components, focusing on in-house design and manufacturing and utilizing a limited number of core handset platform designs for developing and producing a wide range of products with varying features.

Working capital management

We believe our success also depends on our ability to effectively manage our inventory levels, trade-related receivables and payables and other working capital needs. We communicate regularly with our distributors to collect timely feedback from end users and through other channels regarding demand for particular products and project our production volumes and inventory levels based on our analysis of this feedback. As a result, this careful monitoring helps us better manage our working capital requirements. However, we depend on timely and accurate market feedback and a good relationship with our distributors to achieve these added efficiencies. Any failure to obtain timely and accurate market feedback or to correctly estimate demand for our products could result in lost sales opportunities, potential inventory related charges or reduced sales prices and gross margins for our products. We also closely monitor the level of trade-related receivables and payables to effectively anticipate and manage working capital needs.

Financial Impact of Our Corporate History

The following sets forth our corporate transactions that have had a significant impact on our statement of operations for the years ended December 31, 2006, 2007, 2008, 2009 and 2010:

- In July 2006, we made an additional capital contribution of \$18.8 million (equivalent to RMB149.6 million) into CECT. As the minority CECT shareholder did not make a corresponding additional capital contribution, our ownership interest in CECT increased by 3.4% to 93.4%. The transaction resulted in an extraordinary gain of RMB17.8 million.
- In June 2007, we made another capital contribution of \$50 million (equivalent to RMB380.4 million) into CECT. As the minority CECT shareholder did not make a corresponding additional capital contribution, our ownership interest in CECT increased by 3.14% to 96.6%. The transaction resulted in an extraordinary gain of RMB28.7 million.
- In May 2008, we issued \$70.0 million of senior convertible notes, or the Notes, in exchange for a combination of 6,966,666 shares of our ordinary share that were owned by the Investors of the Notes, valued at approximately \$48,349,000, and cash of \$21,651,000. See "Item 12. Description of Securities Other Than Equity Securities". For the year ended December 31, 2008, the Notes resulted in interest expense of RMB92.9 million, gain on revaluation of the derivative instruments embedded in the Notes of RMB144.9 million and an exchange loss of RMB11.5 million that arose from the revaluation of the Notes. For the year ended December 31, 2009, the Notes resulted in interest expense of RMB276.1 million, loss on revaluation of the derivative instruments embedded in the Notes of RMB87.9 million, loss on revaluation of warrant liability of RMB7.2 million and an exchange gain of RMB0.4 million that arose from the revaluation of the Notes. For the year ended December 31, 2010, the Notes resulted in interest expense of RMB4.8 million (\$0.7 million), gain on revaluation of the derivative instruments embedded in the Notes of RMB19.0 million (\$2.9 million), gain on revaluation of warrant liability of RMB4.3 million (\$0.7 million) and an exchange loss of RMB3.8 million (\$0.6 million) that arose from the revaluation of the Notes.

- In August 2008, the holders of the Notes exercised the option to convert \$8,251,000 of the principal amount of the Notes and accrued interest thereon of \$46,000 into 1,511,397 of our ordinary shares at a conversion price of \$5.49 per share, resulting in a loss on extinguishment of the convertible debts of RMB10.6 million.
- In November and December 2009, the holders of the Notes exercised the option to require us to redeem \$30,706,000 of the principal amount of the Notes and to convert \$16,073,000 of the principal amount of the Notes and accrued interest thereon of \$590,000 into 4,114,286 of our ordinary shares at a conversion price of \$4.05 per share, resulting in a gain on extinguishment of the convertible debts of RMB159.3 million.

[Table of Contents](#)

Our business grew and evolved rapidly from 2003 to 2007. However, we experienced a decrease in our revenue, operating income and net income during the years ended December 31, 2008, 2009 and 2010. We may continue to experience decreases in our revenue, operating income and net income and may not be able to achieve a similar growth rate in future periods as we did from 2003 to 2007 and our historical operating results therefore may not provide a meaningful basis for evaluating our business, financial performance and prospects. Moreover, our business model, technology and ability to achieve satisfactory manufacturing results at higher volumes are unproven. Therefore, you should not rely on our past results or our historical rate of growth as an indication of our future performance.

We operate and manage our business as a single segment. Since we primarily generate our revenue from customers in mainland China, we do not account for our results of operations on a geographic basis. For more details regarding our results of operations, see “—A. Operating results.” For more details regarding our corporate history, see “Item 4. Information on the company—A. History and Development of the Company.”

Revenue

We generate a substantial majority of our revenue from the sale of mobile handsets and related accessories to our distributors. Accessories mainly include components used for after-sales services. We also derive a portion of our revenue from other services, including value-added services and handset processing services.

We report handsets and accessories revenue net of value-added taxes, selling price rebates and price guarantees. Selling price rebates refer to price discounts to distributors when they achieve certain sales volumes. Price guarantees are monetary compensation for distributors when the retail prices of our products fall below certain pre-agreed levels.

(Amounts in thousands, except percentages)	Year ended December 31,					
	2008		2009		2010	
	Amount	Percentage of revenue	Amount	Percentage of revenue	Percentage of revenue	
					Amount	Percentage of revenue
	(RMB)		(RMB)		(RMB)	(\$)
Revenues:						
Handsets and accessories	2,140,346	99.4%	1,624,270	99.5%	848,169	128,511
Services and others	13,527	0.6%	8,642	0.5%	7,375	1,117
Total	2,153,873	100.0%	1,632,912	100.0%	855,544	129,628

We sold approximately 2.71 million, 2.12 million and 1.24 million handsets in 2008, 2009 and 2010, respectively. The average selling price of our handsets was RMB788 in 2008, RMB735 in 2009 and RMB672 (\$102 million) in 2010. The decline in our handset shipment in 2010 was mainly due to the intense competition in the PRC mobile handset market and because our new product offerings in 2010 had generally not been well received by the market. The decrease in average selling price in 2009 and 2010 was mainly due to aggressive pricing policy to deal with the increasing competition in the PRC mobile handset market.

Our services mainly include value-added services provided to our end customers, such as ringtone downloading and handset processing services. Our revenue from value-added services was RMB4.2 million, RMB2.2 million and nil, respectively, in 2008, 2009 and 2010. We provided handset processing services to certain handset producers. Under this arrangement, we receive raw materials and components from third parties and process them into handsets or into handset PCB. Our revenue from handset processing services was RMB9.3 million, RMB6.4 million and RMB7.4 million (\$1.1 million), respectively, in 2008 2009 and 2010.

[Table of Contents](#)

Cost of Goods Sold and Operating Expenses

The following table sets forth our cost of goods sold and operating expenses and these amounts as percentages of our revenue for the periods indicated.

(Amounts in thousands, except percentages)	Year ended December 31,						
	2008		2009		2010		
	Amount (RMB)	Percentage of revenue	Amount (RMB)	Percentage of revenue			Percentage of revenue
					Amount (RMB)	(\$)	
Cost of goods sold	1,287,096	59.8%	1,381,595	84.6%	904,328	137,020	105.7%
Operating expenses:							
Selling and distribution	146,551	6.8%	109,598	6.7%	108,578	16,451	12.7%
General and administrative	44,231	2.1%	73,619	4.5%	55,120	8,352	6.4%
Research and development	29,242	1.4%	36,404	2.2%	18,943	2,870	2.2%
Amortization of other intangible assets	11,727	0.5%	4,733	0.3%	4,433	672	0.5%
Impairment of goodwill	—	—	—	—	112,814	17,093	13.2%
Impairment of assets held for sale	—	—	5,957	0.4%	—	—	—%
Impairment of other intangible assets	26,235	1.2%	13,600	0.8%	—	—	—%
Total operating expenses	257,986	12.0%	243,911	14.9%	299,888	45,438	35.0%

Cost of goods sold

The largest items contributing to our cost of goods sold are the cost of raw materials and components used for the manufacturing of our products. Other items contributing to our cost of goods sold are direct labor, which includes salaries and benefits for personnel directly involved in manufacturing activities, production expenses, which consist of salaries and benefits for indirect labor, depreciation charges, utilities and rental expenses, product design fees paid to third-party designers, shipping costs for products sold, processing fees for handsets outsourced from EMS providers, mold amortization expenses, after-sales service-related expenses, including related labor costs and materials expenses, and inventory write-downs.

Our cost of goods sold per unit was RMB474, RMB651 and RMB730 (\$111), in 2008, 2009 and 2010, respectively. The increase in cost of goods sold per unit in 2009 was mainly due to the increase in the sales volume of the higher-end VEVA series products, which used more expensive materials. The increase in cost of goods sold per unit in 2010 was mainly driven by increased prices of raw materials and components, and the write-off of some RMB32.4 million (\$4.9 million) of obsolete materials and components in 2010.

Operating expenses

Selling and distribution expenses

Our selling and distribution expenses primarily consist of share-based compensation, salaries, benefits and other staff-related expenses for our sales and marketing personnel, office expenses related to sales and marketing activities and advertising and other promotional expenses. Our selling and distribution expenses decreased by RMB1.0 million from RMB109.6 million in 2009 to RMB108.6 million (\$16.5 million) in 2010, primarily due to lower payroll costs and savings from cost-reduction initiatives, partially offset by increased advertising spending.

General and administrative expenses

Our general and administrative expenses primarily consisted of share-based compensation, salaries, benefits and other expenses for our administrative personnel, expenses relating to legal, accounting and other professional services, travel and entertainment, depreciation and amortization charges and bad debt provisions.

Our general and administrative expenses in 2010 were RMB55.1 million (\$8.4 million), compared to RMB73.6 million in 2009. The decrease was primarily due to lower share-based compensation expenses recognized in 2010, which decreased from RMB31.0 million in 2009 to RMB18.6 million (\$2.8 million) in 2010. The higher share-based compensation expenses in 2009 was primarily due to the grant of restricted shares to a director and various employees in December 2009. In addition, bad debt provision also decreased from RMB12.4 million in 2009 to RMB8.5 million (\$1.3 million) in 2010.

Research and development expenses

Our research and development expenses primarily consist of share-based compensation, salaries, benefits and other staff-related expenses for our research and development personnel, office expenses and related cost of materials and product testing expenses.

Our research and development expenses were decreased by RMB17.5 million from RMB36.4 million in 2009 to RMB18.9 million (\$2.9 million) in 2010. The decrease was primarily due to a decline in payroll, material and software costs in 2010, and the write-off of RMB3.2 million of costs relating to discontinued development projects in 2009.

[Table of Contents](#)

Amortization of other intangible assets

Amortization of other intangible assets was RMB11.7 million in 2008, RMB4.7 million in 2009 and RMB4.4 million (\$0.7 million) in 2010. Amortization expense decreased in 2009 and 2010 as certain intangible assets had become been fully amortized during 2008, 2009 and 2010.

Impairment of goodwill

We conducted our annual impairment test of goodwill as of December 31, 2008, 2009 and 2010. As a result of the tests, no goodwill impairment charges were recorded during 2008 and 2009. However, in 2010, we recorded a non-cash goodwill impairment charge of RMB112.8 million (\$17.1 million) relating to our subsidiary, CECT. See note 8 to our audited consolidated financial statements included elsewhere in this annual report.

Impairment of assets held for sale

In November 2009, we entered into an agreement for the sale of a property and the associated land use rights to a third party for a total consideration of RMB163.0 million. Such transaction was subsequently completed in the second quarter of 2010. As of December 31, 2009, the land and property have been reclassified from non-current assets to current assets as assets held for sale. In addition, an impairment charge of RMB6.0 million was made in 2009 to write down the value of the assets to their fair value which was estimated based on the expected sales proceeds less costs to sell. We had no assets held for sale as of December 31, 2010.

Impairment of other intangible assets

As a result of our strategic shift to focus more on our high-end VEVA-branded mobile handsets, we made an impairment charge of RMB26.2 million on our “CECT” brand in the year ended December 31, 2008 and a charge of RMB13.6 million in the year ended December 31, 2009.

Share-based compensation expense

We adopted our 2007 equity incentive plan on March 19, 2007 pursuant to which we may issue up to 8,000,000 ordinary shares upon exercise of awards granted under the plan. On March 19, 2007, we granted options to a director and certain employees to purchase 2,716,520 ordinary shares under this plan. These options have an exercise price of \$7.50 per share, vest at different dates beginning November 1, 2007 and have terms varying from two to six years from the date of grant. In addition, on March 19, 2007, we also granted an option to a consultant who provided consulting services to us in connection with the initial public offering of our ordinary shares to purchase up to 1,200,000 ordinary shares at an exercise price of \$18.00 per share. This option vested on April 1, 2007 and expired on March 18, 2011.

In December 2009, we granted 1,955,057 restricted shares to a director and various employees and concurrently cancelled 1,744,800 of employee share options that were outstanding under our equity incentive plan. Among the 1,955,057 restricted shares that were granted, 960,884 shares vested immediately while the balance of 994,173 shares vest on various dates ending April 1, 2012. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Equity Incentive Plan.”

The total amount of share-based compensation expenses recognized during the year ended December 31, 2010 amounted to approximately \$3.2 million (RMB21.9 million). As of December 31, 2010, there was \$4.2 million of unrecognized compensation cost related to unvested restricted shares, which is expected to be recognized over a remaining weighted average vesting period of 1.25 year.

Taxation

Taxation in the British Virgin Islands

We are exempt from all provisions of the Income Tax Act of the British Virgin Islands, including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by us to persons who are not persons resident in the British Virgin Islands. Capital gains realized with respect to any of our shares, debt obligations or other securities by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands. No estate, inheritance, succession or gift tax rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any of our shares, debt obligations or other securities.

No stamp duty is payable in the British Virgin Islands on a transfer of shares in a British Virgin Islands business company.

PRC enterprise income tax

In accordance with the PRC Enterprise Income Tax Law, a unified enterprise income tax rate of 25% and unified tax deduction standards are applied equally to both domestic-invested enterprises and foreign-invested enterprises such as CECT. In addition, under the tax law and the relevant implementing rules, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in the PRC to a foreign corporate investor who is a non-resident enterprise are subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with the PRC that provides for a reduced rate of withholding tax. The British Virgin Islands, where we are incorporated, does not have such a tax treaty with the PRC. If we are considered a non-resident enterprise, the 10% withholding tax on dividend income received from CECT would reduce our net income and have an adverse effect on our operating results.

[Table of Contents](#)

Under the tax law, an enterprise established outside the PRC with its “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The “de facto management body” is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. Substantially all of our management is based in the PRC. If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our worldwide income will be subject to income tax at a uniform rate of 25%, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempt from income tax, subject to certain conditions. Therefore, if we are classified as a resident enterprise, the dividends received from CECT may be exempted from income tax.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of, among other things, assets, liabilities, revenue and expenses. We base our estimates on our own historical experience and on various other factors that we believe to be relevant under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on our management’s judgment.

Obligations for product warranties

We guarantee that products will meet the stated functionality as agreed to in each sale arrangement. We provide for the estimated warranty costs under these guarantees based upon historical experience and our estimate of the level of future claims, and accrue for specific items at the time their existence is known and the amounts can be estimated. These various estimations are made by our management based on their judgment and experience, and any errors could result in our accruing a warranty amount that does not correspond with the actual level of warranty claims. Provisions for product warranty costs are included in cost of goods sold in our consolidated statements of operations and are analyzed as follows:

[Table of Contents](#)

(Amounts in thousands)	Year ended December 31,			
	2008	2009	2010	
	(RMB)	(RMB)	(RMB)	(\$)
Balance at beginning of year	8,097	5,029	1,923	291
Provision	7,485	2,830	2,713	411
Utilization	(10,553)	(5,936)	(3,100)	(469)
Balance at end of year	<u>5,029</u>	<u>1,923</u>	<u>1,536</u>	<u>233</u>

Warranty costs as a percentage of our handsets and accessories revenue may fluctuate from year to year and does not necessarily correlate directly with the trends of our revenue growth. In any particular period, we may experience higher warranty claims due to the launch of new products and/or variations in our manufacturing processes. We typically experience a lower level of warranty claims as our products and manufacturing processes mature and a higher level of claims on new products and processes. Historically, our actual warranty claims have not been significantly different from our estimates, and our method of making warranty claims estimates and the significant assumptions used in making such estimates have been consistently applied over the past three years.

Collectibility of accounts receivable

The allowance for doubtful accounts is based on our management's best estimate of the amount of probable credit losses in our existing accounts receivable. An analysis of the allowance for doubtful accounts for the years ended December 31, 2008, 2009 and 2010 is as follows:

(Amounts in thousands)	Year ended December 31,			
	2008	2009	2010	
	(RMB)	(RMB)	(RMB)	(\$)
Balance at beginning of year	5,429	6,043	18,441	2,794
Bad debt expense	1,277	12,938	8,601	1,303
Bad debt recovery	(595)	(540)	(110)	(16)
Bad debt write-off	(68)	—	—	—
Balance at end of year	<u>6,043</u>	<u>18,441</u>	<u>26,932</u>	<u>4,081</u>

We review our accounts receivable on a periodic basis and make allowances when there is doubt as to the collectibility of the balances. In evaluating the collectibility of a receivable balance, we consider various factors, including the age of the balance, the customer's historical payment history, its current credit-worthiness and current economic trends. Account balances are charged off against the allowance after all means of collection have been exhausted and the possibility for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers.

Changes to our allowance for doubtful accounts may be necessary in the event that the financial condition of our customers improves or deteriorates. Considering the current financial conditions of our customers, we believe that our allowance for doubtful accounts is not excessive and is adequate to cover the estimated losses in our accounts receivable balance.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market value. Write-downs for damaged, obsolete and slow-moving items are determined by our management based on a consideration of several factors, including the aging of the inventories, current and expected future market trends and conditions, and physical condition of goods observed during periodic inventory counts. In determining whether such write-downs are necessary and assessing the amount of such write-downs, our management is required to make judgments and estimates regarding future selling prices, level of demand and indications of obsolescence of the inventories. If our management fails to properly assess these various factors, the amounts actually realized may differ from the carrying amounts.

For the years ended December 31, 2008, 2009 and 2010, inventory write-downs, which had been charged to cost of goods sold amounted to approximately RMB6.6 million, RMB18.0 million and RMB20.0 million (\$3.0 million), respectively.

Recoverability of the carrying amount of goodwill

Goodwill is evaluated for impairment at least annually. We have determined that CECT is the reporting unit for testing goodwill impairment. The first step screens for potential impairment of goodwill to determine if the fair value of the reporting unit is less than its carrying value, while the second step measures the amount of goodwill impairment, if any, by comparing the implied fair value of goodwill to its carrying value. The fair value of CECT is determined based on a combination of the income approach and the market approach.

We performed step one of the annual goodwill impairment test for the years ended December 31, 2008 and 2009, and determined that the fair value of CECT exceeded its net book value as at the respective year end dates. Therefore, step two was not required and no goodwill impairment charges have been recognized. In 2010, the impairment test conducted resulted in an impairment charge of RMB112.8 million (\$17.1 million).

[Table of Contents](#)

“CECT” brand name

We commenced using the “CECT” brand name since our acquisition of the 65% equity interest in CECT on February 8, 2003. The brand is considered to be of value as it enables our products to be better recognized in the market. We had determined that this brand does not have a definitive useful life as there were no legal, regulatory, contractual, competitive, economic or other factors that would limit its useful life. In April 2009, we obtained the trademark registration certificate from the China Trademark Office for one trademark relating to our brand name “CECT”. In October 2010, we obtained three other trademarks relating to our brand name “CECT” with the China Trademark Office. This intangible asset is not amortized but rather tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Such impairment test consists of a comparison of the fair value of the brand with its carrying amount, and an impairment loss is recognized when the carrying amount of the brand exceeds its fair value. The fair value of the “CECT” brand name is estimated using the Relief-from-Royalty Method, a discounted cash flow approach which brings into play, in the case of CECT, a single set of estimated cash flows and a discount rate commensurate with the risk. The cash flow contribution from the brand comes from savings in royalty that CECT would have to pay to a third party for the use of its brand name if CECT had not had the right to use it but nevertheless had wanted its products to have a recognized brand. The cash flow contribution of the “CECT” brand name is linked to the cash inflow from the sales revenue of CECT. As there is a lack of publicly available information about comparable licensing transactions in the PRC suitable for our purpose, the royalty savings as a percentage of sales revenue is estimated by comparing the operational profit margin as a percentage of sales revenue of CECT with its superior “CECT” brand name with those of comparable companies in China which operate on an OEM sub-contractor basis or with an inferior brand. Also, marketing expense is required to maintain the brand name for CECT. An average of marketing expense as a percentage of sales revenue is taken from the statements of operations of CECT in the medium term forecast. This percentage is then used to estimate cash outflow relating to marketing expense in the cash flow forecast under the Relief-from-Royalty Method.

Due to our strategic shift to focus more on our high-end VEVA-branded mobile handsets, we recorded an impairment charge of RMB26.2 million on our CECT brand in 2008 and a charge of RMB13.6 million (\$2.0 million) in 2009. As of December 31, 2009, full impairment provision has been made on our CECT brand.

Impairment of long-lived assets

We review long-lived assets with determinable useful lives, principally consisting of property, machinery and equipment, land use rights and intangible assets, which include customer relationships, completed technology, core technology, backlog and licenses, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of an asset is measured by a comparison of the carrying value of the asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment is measured by the amount by which the carrying value exceeds the fair value of the asset. Fair value is determined by discounting future forecasted cash flows or utilizing an observable market value if readily available.

In analyzing long-lived assets for potential impairment, significant assumptions and estimates are required in determining the future cash flows of an asset group, including, among other things, estimates of the assets’ residual values and the period of time over which the assets will be held and used, our views of future economic conditions and our future operating performance, and other factors. Different assumptions and estimates used could potentially result in different conclusions regarding the need for impairment charges. Similarly, the use of different discount rates when utilizing the discounted cash flow methodology to determine the fair value of an asset group could result in different fair values and hence impact any related impairment charges.

For the year ended December 31, 2008, we did not record any impairment charges on our long-lived assets. In November 2009, we entered into an agreement for the sale of a property and the associated land use rights to a third party for a total consideration of RMB163.0 million. The sale transaction was subsequently completed in the second quarter of 2010. As of December 31, 2009, the land and property have been reclassified from non-current assets to current assets held for sale. In addition, an impairment charge of RMB6.0 million was made in 2009 to write down the value of the assets to their fair value which was estimated based on the expected sales proceeds less costs to sell. For the year ended December 31, 2010, we did not record any impairment charges on our long-lived assets.

Depreciation and amortization of long-lived assets

We have a substantial amount of property, machinery and equipment, and intangible assets, and the depreciation/amortization of these assets constitutes a significant operating cost for us. The useful lives of our long-lived assets represent our estimate of the periods during which we expect to derive economic benefits from the assets. In estimating the useful lives and also the recoverable salvage values of these assets and in determining whether subsequent revisions to the useful lives and salvage values are necessary, we consider the likelihood of technological obsolescence arising from changes in production techniques, technology, market demand and intended use. We routinely review the remaining estimated useful lives and salvage values of our long-lived assets to determine if such

lives and values should be adjusted. However, actual economic lives and salvage values may differ from our estimates and any future revisions to these estimates will impact our depreciation/amortization expenses, and hence our operating results, in future periods.

In the years ended December 31, 2008, 2009 and 2010, we have not made any changes to the estimated useful lives or salvage values for our long-lived assets.

Valuation of the Embedded Derivatives

The derivative instruments embedded in the \$70.0 million Notes that we issued in May 2008 includes the right to convert the Notes into our ordinary shares by the note holders, an early redemption put option, a put option conditional upon certain events of default and a put option conditional upon a change of control. We have determined that these embedded derivatives are required to be bifurcated from the associated host instrument and accounted for separately as a derivative instrument liability. The embedded derivatives are revalued at the end of each reporting period, with changes in the fair value of the derivative liability recorded as charges or credits to income in the period in which the changes occur.

[Table of Contents](#)

The valuation of the embedded derivatives was derived by using various valuation methods, which included Monte Carlo Simulation and Backward Dynamic Programming. These methods require us to make assumptions regarding the probability of certain future events. Other factors used to determine fair value include our period-end stock price, historical stock volatility, risk-free interest rate and derivative term. The identification of, and accounting for, derivative instruments and the assumptions used to value them can significantly affect our financial position and results of operations.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements” (“ASU 2010-13”). ASU 2010-06 amends Accounting Standards Codification (“ASC”) 820 to add new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The guidance in ASU 2010-06 is effective for the first reporting period beginning after December 15, 2009, the adoption of which did not have a material impact on the Group’s financial statements, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. The adoption of the Level 3 guidance of ASU 2010-06 is not expected to have a material impact on our consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-13, “Compensation — Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades” (“ASU 2010-13”). The objective of ASU 2010-13 is to address the classification of an employee share-based payment award with an exercise price dominated in the currency of a market in which the underlying equity security trades. ASC 718 provides guidance on the classification of a share-based payment award as either equity or liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 provide amendments to ASC 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. Then amendments in this standard are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 31, 2010. The adoption of ASU 2010-13 is not expected to have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, “Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts” (“ASU 2010-28”). The objective of ASU 2010-28 is to address questions about entities with reporting units with zero or negative carrying amounts because some entities concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. The amendments in this standard modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 is not expected to have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, “Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations” (“ASU 2010-29”). ASU 2010-29 specifies that if a public company presents comparative financial statements, the entity should only disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The adoption of ASU 2010-29 is not expected to have a material impact on our consolidated financial statements.

[Table of Contents](#)

A. Operating Results

The following table sets forth our summary consolidated statements of operations for the periods indicated:

Consolidated statements of operations data (Amounts in thousands)	Year ended December 31,			
	2008	2009	2010	
	(RMB)	(RMB)	(RMB)	(\$)
Revenues	2,153,873	1,632,912	855,544	129,628
Cost of goods sold	(1,287,096)	(1,381,595)	(904,328)	(137,020)
Gross profit (loss)	866,777	251,317	(48,784)	(7,392)
Operating expenses:				
Selling and distribution	(146,551)	(109,598)	(108,578)	(16,451)
General and administrative	(44,231)	(73,619)	(55,120)	(8,352)
Research and development	(29,242)	(36,404)	(18,943)	(2,870)
Amortization of other intangible assets	(11,727)	(4,733)	(4,433)	(672)
Impairment of goodwill	—	—	(112,814)	(17,093)
Impairment of assets held for sale	—	(5,957)	—	—
Impairment of other intangible assets	(26,235)	(13,600)	—	—
Operating income (loss)	608,791	7,406	(348,672)	(52,830)
Interest income	24,405	18,850	21,978	3,330
Interest expense	(165,506)	(326,512)	(45,159)	(6,842)
Foreign currency exchange (loss) gain, net	(5,142)	352	(3,815)	(578)
Gain (loss) on remeasurement of embedded derivatives	144,939	(87,935)	19,006	2,880
(Loss) gain on remeasurement of warrant liability	—	(7,219)	4,343	658
(Loss) gain on extinguishment of convertible debts	(10,634)	159,326	—	—
Impairment of investment at cost	—	(2,803)	—	—
Gain on disposal of subsidiaries	2,269	—	—	—
Other income (loss), net	(3,700)	178	(1,448)	(219)
Income (loss) before income tax expense and extraordinary items	595,422	(238,357)	(353,767)	(53,601)
Income tax expense	(155,717)	(11,632)	(17,456)	(2,645)
Net income (loss)	439,705	(249,989)	(371,223)	(56,246)
Net (income) loss attributable to noncontrolling interests	(15,901)	(380)	8,381	1,270
Net income (loss) attributable to holders of ordinary shares	<u>423,804</u>	<u>(250,369)</u>	<u>(362,842)</u>	<u>(54,976)</u>

Period-to-Period Comparisons of Historical Financial Data

Revenue

2010 compared to 2009

Our revenue decreased by 47.6% from RMB1,632.9 million in 2009 to RMB855.5 million (\$129.6 million) in 2010. The decrease was primarily due to a decline in our handsets and accessories revenue, which accounted for 99.5% and 99.1% of our total revenues in 2009 and 2010, respectively.

Our revenue from the sale of handsets and accessories decreased by 47.8% from RMB1,624.3 million in 2009 to RMB848.2 million (\$128.5 million) in 2010, primarily due to lower handset shipment and a decrease in the average selling price of handsets sold in 2010. Our handset shipment decreased by 41.7% from 2,123,000 units in 2009 to 1,238,000 units in 2010. The decrease in our handset shipments in 2010 was primarily due to a slow-down in shipments amid intense competition in the PRC handset market and as our new product offerings in 2010 had generally not been well received by the market. The average selling price of our handsets decreased

from RMB735 per unit in 2009 to RMB672 (\$102) per unit in 2010, primarily due to our aggressive pricing policy to drive sales in an increasingly competitive environment.

2009 compared to 2008

Our revenue decreased by 24.2% from RMB2,153.9 million in 2008 to RMB1,632.9 million in 2009. The decrease was primarily due to a decline in our handsets and accessories revenue, which accounted for 99.4% and 99.5% of our total revenues in 2008 and 2009, respectively.

Table of Contents

Our revenue from the sale of handsets and accessories decreased by 24.1% from RMB2,140.3 million in 2008 to RMB1,624.3 million in 2009, primarily due to lower handset shipment and a decrease in the average selling price of handsets sold in 2009. Our handset shipment decreased by 21.8% from 2,714,000 units in 2008 to 2,123,000 units in 2009. The decrease in our handset shipments in 2009 was primarily due to fewer new models launched and a slow-down in shipments amid intense competition in the PRC handset market. The average selling price of our handsets decreased from RMB788 per unit in 2008 to RMB735 per unit in 2009, primarily due to the launch of certain lower-priced VEVA-series products to target the lower-end market and more aggressive pricing policy to drive sales in an increasingly competitive and deteriorated uncertain economic environment. The average selling price of our handsets was also affected by a decline in the use of the TV infomercial arrangement under which handsets were sold to infomercial companies at a higher price, but in return, we had to bear the airtime and logistic costs.

Cost of goods sold

2010 compared to 2009

Our cost of goods sold decreased by 34.5% from RMB1,381.6 million in 2009 to RMB904.3 million (\$137.0 million) in 2010, primarily driven by the decreased unit sales volumes of our handset products, which resulted in, among others, a decrease in raw materials and components cost. The cost of goods sold as a percentage of revenue increased from 84.6% in 2009 to 105.7% in 2010, primarily due to more aggressive product pricing, increased prices of raw materials and components, and the write-off of RMB32.4 million (\$4.9 million) of obsolete materials and components in 2010.

2009 compared to 2008

Our cost of goods sold increased by 7.3% from RMB1,287.1 million in 2008 to RMB1,381.6 million in 2009, primarily driven by the increased portion of VEVA products in our total sales volume, which resulted in, among others, a RMB 67.8 million increase in raw materials and components cost. In addition, inventory write-downs also increased from RMB6.6 million in 2008 to RMB18.0 million in 2009. The cost of goods sold as a percentage of revenue increased from 59.8% in 2008 to 84.6% in 2009, primarily due to more aggressive pricing policy which we adopted for the sale of our products in 2009 in order to deal with the increasing competition in the PRC mobile handset market.

Gross profit (loss) and gross margin

2010 compared to 2009

In 2010, we recorded a gross loss of RMB48.8 million (\$7.4 million) compared to a gross profit of RMB251.3 million in 2009. The loss in 2010 primarily resulted due to aggressive product pricing, inventory write-downs of RMB20.0 million (\$3.0 million) and the write-off of some RMB32.4 million (\$4.9 million) of obsolete materials and components in 2010.

2009 compared to 2008

Our gross profit decreased by 71.0% from RMB866.8 million in 2008 to RMB251.3 million in 2009, primarily due to the decreased revenue from our mobile handset products. Our gross margin decreased from 40.2% in 2008 to 15.4% in 2009, primarily due to fewer new models launched and more aggressive product pricing amid increasing competition in the PRC handset market. Our gross margin was also affected by a decline in the use of the TV infomercial arrangement under which handsets were sold to infomercial companies at a higher price, but in return, we had to bear the airtime and logistic costs.

Operating expenses

2010 compared to 2009

Our operating expenses increased by RMB56.0 million from RMB243.9 million in 2009 to RMB300.0 million (\$45.4 million) in 2010, primarily due to a goodwill impairment charge of RMB112.8 million (\$17.1 million) in 2010, partially offset by decreases in selling and distribution expenses, general and administrative expenses, research and development expenses, amortization of intangible assets, and impairment charges on other intangible assets and assets held for sales in 2010.

2009 compared to 2008

Our operating expenses decreased by RMB14.1 million from RMB258.0 million in 2008 to RMB243.9 million in 2009, primarily due to the decreases in selling and distribution expenses, amortization of intangible assets and impairment of other intangible assets in 2009, partially offset by an impairment charge we made on certain assets held for sales and an increase in general and administrative expenses, and research and development expenses.

Selling and distribution expenses

2010 compared to 2009

Our selling and distribution expenses were decreased by 0.9% from RMB109.6 million in 2009 to RMB108.6 million (\$16.5 million) in 2010. The decrease in selling and distribution expenses was primarily due to lower payroll costs and savings from cost-reduction initiatives, partially offset by the increased advertising spending in 2010.

Our selling and distribution expenses as a percentage of our total revenue increased from 6.7% in 2009 to 12.7% in 2010.

Table of Contents

2009 compared to 2008

Our selling and distribution expenses were decreased by 25.2% from RMB146.6 million in 2008 to RMB109.6 million in 2009. The decrease in selling and distribution expenses was primarily due to the decrease in airtime costs from RMB128.2 million in 2008 to RMB80.0 million in 2009 as a result of the reduced use of TV direct sales as a channel to distribute our products.

Our selling and distribution expenses as a percentage of our total revenue decreased from 6.8% in 2008 to 6.7% in 2009.

General and administrative expenses

2010 compared to 2009

Our general and administrative expenses decreased by 25.1% from RMB73.6 million in 2009 to RMB55.1 million (\$8.4 million) in 2010. The decrease was primarily due to lower share-based compensation expenses, which decreased from RMB31.0 million in 2009 to RMB18.6 million (\$2.8 million) in 2010. The higher share-based compensation expenses in 2009 was mainly due to the grant of restricted shares to a director and various employees in December 2009. In addition, bad debt expense also decreased from RMB12.4 million in 2009 to RMB8.5 million (\$1.3 million) in 2010.

As for the percentage of total revenue, our general and administrative expenses increased from 4.5% in 2009 to 6.4% in 2010.

2009 compared to 2008

Our general and administrative expenses increased by 66.4% from RMB44.2 million in 2008 to RMB73.6 million (\$10.8 million) in 2009. The increase was primarily due to higher share-based compensation expenses, which increased from RMB12.2 million in 2008 to RMB31.0 million (\$4.5 million) in 2009. The increase in share-based compensation expenses in 2009 was mainly due to the grant of restricted shares to a director and various employees in December 2009. In addition, bad debt expense also increased from RMB0.7 million in 2008 to RMB12.4 million in 2009 (\$1.8 million).

As for the percentage of total revenue, our general and administrative expenses increased from 2.1% in 2008 to 4.5% in 2009.

Research and development expenses

2010 compared to 2009

Our research and development expenses decreased by 48.0% from RMB36.4 million in 2009 to RMB18.9 million (\$2.9 million) in 2010. The decrease was mainly due to a decrease in payroll, material and software costs in 2010, and the write-off of RMB3.2 million of costs relating to discontinued development projects in 2009.

Our research and development expense as a percentage of total revenue was 2.2% in 2009 and 2010.

2009 compared to 2008

Our research and development expenses increased by 24.7% from RMB29.2 million in 2008 to RMB 36.4 million in 2009. The increase was mainly driven by an increase in material and software costs, and the write-off of RMB3.2 million of costs relating to discontinued development projects in 2009.

Our research and development expense as a percentage of total revenue was 1.4% in 2008 and 2.2% in 2009.

Amortization of other intangible assets

Amortization of other intangible assets decreased by 59.8% from RMB11.7 million in 2008 to RMB4.7 million in 2009 and decreased by 6.4% to RMB4.4 million (\$0.7 million) in 2010 mainly because certain intangible assets had been fully amortized during 2008, 2009 and 2010.

Impairment of goodwill

We conducted our annual impairment test of goodwill as of December 31, 2008, 2009 and 2010. As a result of the tests, no goodwill impairment charges were recorded during 2008 and 2009. However, in 2010, we recorded a non-cash goodwill impairment charge of RMB112.8 million (\$17.1 million) relating to our subsidiary, CECT. See note 8 to our audited consolidated financial statements included elsewhere in this annual report.

Impairment of assets held for sale

We entered into an agreement for the sale of a property and the associated land use rights to a third party for a total consideration of RMB163.0 million in November 2009. The sale was subsequently completed in the second quarter of 2010. As of December 31, 2009, the land and property have been reclassified from non-current assets to current assets as assets held for sale. In addition, we made an impairment charge of RMB6.0 million during the year ended December 31, 2009 to write down the value of the assets to their fair value which was estimated based on the expected sales proceeds less costs to sell.

[Table of Contents](#)

Impairment of other intangible assets

As a result of our strategic shift to focus more on our high-end VEVA-branded mobile handsets, we made an impairment charge of RMB26.2 million on our “CECT” brand in the year ended December 31, 2008 and a charge of RMB13.6 million in the year ended December 31, 2009. We did not record any impairment charge on other intangible assets during the year ended December 31, 2010.

Operating income (loss)

As a result of the foregoing, our operating loss was RMB348.7 million (\$52.8 million) in 2010 compared to an operating income of RMB608.8 million and RMB7.4 million in 2008 and 2009, respectively.

Interest income, interest expenses, foreign currency exchange (loss) gain, net, and other income (loss), net

2010 compared to 2009

Our interest income increased by 16.6% from RMB18.9 million in 2009 to RMB22.0 million (\$3.3 million) in 2010, primarily due to the increase in interest rates in 2010. Our interest expenses decreased by 86.2% from RMB326.5 million in 2009 to RMB45.1 million (\$6.8 million) in 2010, primarily due to a reduction in short-term bank borrowings and a decrease in interest expense relating to the \$70.0 million Notes we issued in May 2008. Interest expense relating to the Notes decreased from RMB276.1 million in 2009 to RMB4.8 million (\$0.7 million) in 2010, mainly due to the full accretion of the discount on the Notes in November 2009 and the conversion and redemption of a substantial portion of the Notes in the third quarter of 2009. We recognized a foreign currency gain of RMB0.4 million in 2009 and a foreign currency loss of RMB3.8 million (\$0.6 million) in 2010. The foreign currency gain in 2009 primarily resulted from the translation of our Renminbi-denominated Notes into U.S. dollars, reflecting the depreciation in the value of the Renminbi against the U.S. dollar. The foreign currency loss in 2010 primarily resulted from the translation of our Renminbi-denominated Notes into U.S. dollars, reflecting the appreciation in the value of the Renminbi against the U.S. dollar.

2009 compared to 2008

Our interest income was decreased by 22.5% from RMB24.4 million in 2008 to RMB18.9 million in 2009, primarily due to the decrease in interest rates in 2009. Our interest expenses increased by 97.3% from RMB165.5 million in 2008 to RMB326.5 million in 2009, primarily due to an increase in interest expense relating to the \$70.0 million Notes we issued in May 2008. Interest expense relating to the Notes amounted to RMB276.1 million in 2009 compared to RMB92.9 million in 2008. We recognized a foreign currency loss of RMB5.1 million in 2008 and a foreign currency gain of RMB0.4 million in 2009. The foreign currency gain in 2008 primarily resulted from the translation of our Renminbi-denominated Notes into U.S. dollars, our functional currency, reflecting the appreciation in the value of the Renminbi against the U.S. dollar. The foreign currency gain in 2009 primarily resulted from the translation of our Renminbi-denominated Notes into U.S. dollars, reflecting the depreciation in the value of the Renminbi against the U.S. dollar.

Gain (loss) on remeasurement of embedded derivatives

For the year ended December 31, 2009, we recognized a non-cash loss of approximately RMB87.9 million on the mark-to-market of the liability-classified derivatives embedded in the Notes we issued in May 2008. The mark-to-market of the embedded derivative resulted in a gain of RMB19.0 million (\$2.9 million) in 2010.

(Loss) gain on remeasurement of warrant liability

The mark-to-market of the Warrants, which were reclassified from equity to liability effective January 1, 2009 as further explained in note 11 to our audited consolidated financial statements included elsewhere in this annual report, resulted in a non-cash loss of RMB7.2 million in 2009 and a non-cash gain of RMB4.3 million (\$0.7 million) in 2010.

(Loss) gain on extinguishment of convertible debts

On August 19, 2008, the holders of the Notes exercised the option to convert \$8,251,000 of the principal amount of the Notes and accrued interests thereon of \$46,000 into 1,511,397 of our ordinary shares at a conversion price of \$5.49 per share. The extinguishment of the convertible debts that arose from such conversion resulted in a loss of RMB10.6 million.

In November and December 2009, the holders of the Notes exercised the option to require us to redeem \$30,706,000 of the principal amount of the Notes and to convert \$16,073,000 of the principal amount of the Notes and accrued interest thereon of \$590,000 into 4,114,286 of our ordinary shares at a conversion price of \$4.05 per share, resulting in a gain on extinguishment of the convertible debts of RMB159.3 million.

Impairment of investment at cost

In May 2010, CECT entered into an agreement to dispose of its 10% equity interest held in CEC Mobile Co., Ltd. to a third party for a total consideration of RMB5.0 million (\$0.7 million). An impairment charge of RMB2.8 million was made during the year ended December 31, 2009 to write down the carrying value of the investment to the value of the expected sales proceeds.

Gain on disposal of subsidiaries

In 2008, we recognized a gain of RMB2.3 million on the disposal of our equity interests in two subsidiaries, Beijing CECT Yitong Technology Co., Ltd. and Huizhou CEC Telecom Co., Ltd..

[Table of Contents](#)

Income tax expense

Our income tax expense increased by RMB5.8 million from RMB11.6 million in 2009 to RMB17.5 million (\$1.6 million) in 2010, primarily due to valuation allowances recognized on our deferred tax assets in 2010. Our income tax expense was decreased by RMB144.1 million from RMB155.7 million in 2008 to RMB11.6 million in 2009, primarily due to decreases in our taxable income.

Net (income) loss attributable to noncontrolling interests

Net (income) loss attributable to noncontrolling interests relate primarily to the minority shareholder's share of the results of CECT. Net loss attributable to noncontrolling interests was RMB8.4 million (\$1.3 million) in 2010, which resulted primarily due to the net loss incurred by CECT in 2010. Net income attributable to noncontrolling interests was decreased by RMB15.5 million from RMB15.9 million in 2008 to RMB0.4 million in 2009, which primarily reflects the decline in the net income of CECT in 2009.

Net income (loss) attributable to holders of ordinary shares

As a result of the foregoing, the net income attributable to holders of our ordinary shares amounted to RMB423.8 million in 2008 and the net loss attributable to holders of our ordinary shares amounted to RMB250.4 million in 2009 and RMB362.8 million (\$55.0 million) in 2010. Our net income margin was 19.7% in 2008 while in 2009 and 2010; our net loss margin was 15.3% and 42.2%, respectively. Our basic earnings (loss) per share was RMB7.52, (RMB5.21) and (RMB6.85) (\$1.04), respectively, in 2008, 2009 and 2010. Our diluted earnings (loss) per share was RMB6.99, (RMB5.21) and (RMB6.85) (\$1.04), respectively, in 2008, 2009 and 2010.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the change of consumer price index in China was 5.9% in 2008, 5.2% in 2009 and 3.3% in 2010.

B. Liquidity and Capital Resources

Liquidity

We believe the cash we currently hold, cash flow from operations and available credit facilities will be sufficient to meet our present cash needs, including our cash needs for working capital and capital expenditures. We may, however, require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

We estimate our liquidity needs for 2011 will be approximately RMB500 million (\$75.8 million), which will be primarily related to the repayment of shareholder loans from Xing and repayment of bank borrowings. Our future working capital requirements will depend on many factors, including, among others, the rate of our revenue growth, the timing and extent of expansion of our sales and marketing activities, the timing of introductions of new products and/or enhancements to existing products, and the timing and extent of expansion of our manufacturing capacity.

Our long-term liquidity needs will relate primarily to working capital to pay our suppliers, distributors and third-party manufacturers, as well as any increases in manufacturing capacity or acquisitions of third party businesses or licenses that we may seek in the future. We expect to meet these requirements primarily through our current cash holdings, revolving short-term bank borrowings, as well as our cash flow from operations. We currently do not have any plan to incur significant capital expenditures in 2011 and for the foreseeable future beyond 2011.

The following table sets forth a summary of our cash flows for the periods indicated:

(Amounts in thousands)	Year ended December 31,			
	2008	2009	2010	
	(RMB)	(RMB)	(RMB)	(\$)
Net cash provided by (used in) operating activities	110,106	602,369	(268,049)	(40,613)
Net cash (used in) provided by investing activities	(57,663)	(58,529)	331,026	50,155
Net cash provided by (used in) financing activities	143,738	(321,981)	(436,582)	(66,149)

Net cash provided by (used in) operating activities

Our net cash used in operating activities was RMB268.1 million (\$40.6 million) in 2010, compared to net cash provided by operating activities of RMB602.4 million in 2009. This difference was primarily due to the significant losses incurred in our operations and

slower collection of accounts receivable during 2010. Our total accounts receivable as of December 31, 2009 was RMB114.7 million compared to RMB239.4 million (\$36.3 million) as of December 31, 2010.

Our net cash provided by operating activities was RMB602.4 million in 2009, compared to RMB110.1 million in 2008. This difference was primarily due to the significant collection of accounts receivable and a decrease in prepayments made to our suppliers during 2009. Our total accounts receivable and bills receivable decreased from RMB505.8 million as of December 31, 2008 to RMB114.7 million as of December 31, 2009 while our prepayments to suppliers decreased from RMB363.9 million as of December 31, 2008 to RMB181.6 million as of December 31, 2009.

[Table of Contents](#)

Net cash (used in) provided by investing activities

Our net cash (used in) provided by investing activities primarily relates to net cash inflows and outflows from the acquisitions and disposals of our equity investments, net outflows for capital expenditures and changes in the level of our restricted cash. In 2010, our net cash provided by investing activities was RMB331.0 million (\$50.2 million). In 2008 and 2009, our net cash used in investing activities was RMB57.7 million and RMB58.5 million, respectively. In 2008, we incurred capital expenditures of RMB14.9 million, primarily for the set-up of a manufacturing facility for the production of molds, cast components and other handset parts in Huizhou City, Guangdong Province, China. In 2009 and 2010, we respectively received RMB49.0 million and RMB114.0 million (\$17.3 million) on the sale of a property and the associated land use rights. Our restricted cash, which relates primarily to bank deposits pledged as securities for bank borrowings, increased by RMB41.9 million in 2008 and RMB115.4 million in 2009, and decreased by RMB214.0 million in 2010.

Net cash provided by (used in) financing activities

Our cash flows from financing activities primarily relate to short-term bank borrowings, related company advances and proceeds from the issuance of the Notes in May 2008. Our net cash provided by financing activities was RMB143.7 million in 2008, while our net cash used in financing activities was RMB322.0 million and RMB436.6 million (\$66.2 million) in 2009 and 2010, respectively. Net cash provided by financing activities in 2008 included the net proceeds received from the issuance of the Notes in May 2008. Our net cash used in financing activities in 2009 relate mainly to the redemption of \$30.0 million of the principal amount of the Notes and the repayment of bank borrowings. Our net cash outflows in 2010 resulted primarily from the repayment of bank borrowings. In the years ended December 31, 2008, 2009 and 2010, we participated in a cash management arrangement at the direction and discretion of Xing, the objective of which was to provide each entity within the related party group, including our company, the necessary cash resources on an as-needed basis. Consequently, we periodically both transfer cash to and receive cash from certain related parties under such arrangement. These cash flows are unrelated to the production and delivery of our products and services and do not stem from transactions or other events that enter into the determination of our net income. After the execution of the deed of assignment by Xing in respect of the advances to and from the related parties, we had net cash advances from Xing RMB11.2 million as of December 31, 2008. In 2009, we made net cash advances to our related parties of RMB13.0 million and after taking into account the reclassification of RMB7.4 million to third-party balances following the disposal by Xing of its entire equity interest in Huizhou Qiao Xing Communication Industry Ltd., or QXCI, in November 2009, we had net cash advances owing to Xing of RMB5.6 million as of December 31, 2009. In 2010, we received net cash advances from our related parties of RMB2.1 million and after taking into account the exchange differences arising from the translation of foreign currency-denominated debts, we have net cash advances owing to Xing of RMB8.1 million (\$1.2 million) as of December 31, 2010.

Capital resources

We have financed our operations primarily through cash flows from operations, the proceeds of the initial public offering of our ordinary shares, the proceeds from the issuance of the Notes in May 2008 and also through bank loans, bills payable and related-party advances. As of December 31, 2010, we had convertible notes with an aggregate outstanding principal amount of RMB112.2 million (\$17.0 million), short-term bank loans from various commercial banks with an aggregate outstanding balance of RMB446.0 million (\$67.6 million), and outstanding related-party advances in the aggregate amount of RMB8.1 million (\$1.2 million). The outstanding convertible notes bear interest at 4.0% per annum, mature on May 15, 2011 and contain an early redemption option which can require us to redeem the convertible notes at any time on or after November 15, 2009. In February 2011, the full outstanding amount of the Notes plus accrued interest thereon of \$1.45 million was converted into 4,549,453 shares of our ordinary share at a conversion price of US\$4.05 per share. Our short-term bank loans bear a weighted average interest rate of 6.1% as of December 31, 2010, have terms of three months to one year, and expire at various times throughout 2011. These facilities contain no specific renewal terms but we have historically been able to obtain extensions of some of the facilities shortly before they mature. All related-party advances outstanding as at December 31, 2010 were interest-free, unsecured and without fixed terms of repayment.

Capital expenditures

Our capital expenditures were RMB14.9 million, RMB0.9 million and RMB2.1 (\$0.3 million) in 2008, 2009 and 2010, respectively. Our capital expenditures in 2008 relate primarily to the set-up of a manufacturing facility for the production of molds, cast components and other handset parts in Huizhou City, Guangdong Province, China, which was disposed by us together with our disposal of our equity interests in HCECT. We do not expect to incur any major capital expenditures in 2011.

C. Research, Development, Patents and Licenses, Etc.

See “Item 4 Information on the Company—B. Business Overview—Research and Development.”

[Table of Contents](#)

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2010 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We do not have any outstanding derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in speculative transactions involving derivatives.

We provided guarantees to QXCI for bank borrowings in the amount of RMB150.0 million as of December 31, 2008.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commitments as of December 31, 2010:

	Due by Period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
		(amounts in thousands of Renminbi)			
Purchase obligations relating to raw materials and components	17,828	17,828	—	—	—
Operating lease commitments	5,178	2,376	2,802	—	—
Total	23,006	20,204	2,802	—	—

G. Safe Harbor

See “Forward-Looking Statements.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Name	Age	Position/Title
Zhi Yang Wu	37	Chairman, Director and Chief Executive Officer
Rui Lin Wu	58	Vice Chairman and Director
Zacky Sun	48	Independent Director
Xin Zhang	46	Independent Director
Pei De Lou	49	Independent Director
David Li	41	General Manager, Research and Development
Kok Seong Tan	39	Chief Financial Officer and Principal Accounting Officer

Directors

Mr. Zhi Yang Wu is the chairman of our board of directors and our chief executive officer. He joined our company in 2003. Mr. Wu's additional role include vice chairman of Qiao Xing Group. He was the vice chairman and board secretary of Xing, our parent company currently listed on the Nasdaq Global Market, from 1992 to 2010 and the general manager of QXCI from 1995 to 1999. Mr. Wu received a diploma in enterprise management from Huizhou University in China.

Mr. Rui Lin Wu is our vice chairman and is also the father of our chairman. Mr. Wu founded our parent company, Xing, and currently serves as its chairman and chief executive officer. Mr. Wu has over 18 years of experience in the telecommunications industry. Prior to his career in the telecommunications industry, he was a general manager of a fashion and garment factory from 1980 to 1986. Currently, Mr. Wu is the executive commissioner of the China National Association of Industry and Commerce, senior analyst of the China National Condition and Development Research Center, and a member of the Poverty Fund of China.

Mr. Zacky Sun is our independent director. He joined our company in March 2007. From July 2004 to February 2007, Mr. Sun was a financial consultant to Intermost Corporation (OTCBB: IMOT). He also served as financial controller of the same company from February 2002 to March 2003. During the period from March 2003 to July 2004, he was the financial manager and executive director of Kanhan Technologies Group Limited, a Hong Kong publicly listed company. From July 2000 to February 2002, Mr. Sun served as director of Voice Services Department at Far East Gateway Limited. From March 1999 to July 2000, he worked for Man Sang Holdings, Inc. (AMEX: MHJ) and its affiliated companies in various roles as group financial controller, chief financial officer and vice president. From December 1997 to February 1999, Mr. Sun was financial controller at CCT Communications Group Limited. From May 1995 to July 1999, he held several positions, including financial controller, acting general manager and financial controller, at Synergy Power Corporation Pty Ltd, an Australia-based power company. Mr. Sun holds a B.S. degree from University College of Wales, Aberystwyth in England. He is a certified public accountant in Hong Kong.

[Table of Contents](#)

Dr. Xin Zhang is our independent director. He joined our company in February 2008. Dr. Zhang is the chairman and chief executive officer of Sinocro Partners, a merchant bank specializing in investment and advisory services related to the PRC. Before founding Sinocro Partners, Dr. Zhang was the CEO of Chipscreen Bioscience, or Chipscreen. Chipscreen was recognized as one of the ten most promising biotech and pharmaceutical company in China. China Medicine Economic News recognized Dr. Zhang as one of “China’s New Strength, Top Individuals of China Pharmaceutical Industry” in 2003. Prior to joining Chipscreen, Dr. Zhang was the managing director at Delirium, a global strategic consulting company in New York, Hong Kong and China. Dr. Zhang also had work experience in KPMG and Credit Suisse First Boston. Dr. Zhang received his Ph.D. from University of Pennsylvania, M.D. from Tianjin Medical University and MBA from the University of Chicago with a concentration in Finance and Accounting.

Professor Pei De Lou is our independent director. He joined our company in March 2007 and has been a professor of telecom engineering at Beijing University of Posts and Telecommunications since July 2001. His other current positions include executive secretary of the China Mobile Communications Association, chairman of the Multimedia Communication Broadcasting Standardization Technology Committee under the China Association for Standardization, independent director of Xinzhi Sci & Tech Co., Ltd, a PRC listed company, and chief scientist of Wireless China Network Technology Co., Ltd., where he also served as chief executive officer from May 2005 to February 2007. From December 2002 to May 2005, Professor Lou was general manager of Yunnan Golden Horizon Mobile Communication Technology Co., Ltd. From July 2001 to December 2002, he was general manager of ZT Chinacom Mobile Communication R&D Co., Ltd. From March 1998 to July 2001, Professor Lou was section chief of the Administrative Department of Electronic Information Products of MIIT, where he was in charge of the first national fund for mobile handset research and development. Professor Lou has received the National Invention Award (1993) and the Gold Prize at the 8th National Invention Show in China. Professor Lou holds a Ph.D. degree from the University of Electronic Science and Technology of China.

Executive officers

Dr. David Li, who resigned as our chief executive officer on December 21, 2010, is presently the head of our production and research and development teams. He joined our company in 2004. Prior to that, Dr. Li served as vice general manager of the Telecommunications Department of Haier Group Company from 1998 to 2001, responsible for manufacturing, research and development and quality control. After that, he served as vice general manager of the Haier-CCT joint venture from 2001 to 2004. From 1993 to 1998, Dr. Li studied as a graduate student at Tianjin University in China. From 1991 to 1993, he was an engineer at Jingdezhen Communications Equipment Co., Ltd., which is affiliated with the Ministry of Posts and Telecommunications. Dr. Li received both his master degree in Communications and Electronics and his doctorate degree in Signal Processing from Tianjin University in China.

Mr. Kok Seong Tan is our chief financial officer and principal accounting officer. Mr. Tan joined our company in September 2006. From February 2005 to May 2006, he was an independent director and member of the audit committee of Zhonghui Holdings Ltd., a Singapore Stock Exchange listed company. Mr. Tan worked at the Shanghai Office of Capgemini, a French public company engaged in consulting, technology and outsourcing, from 2004 to 2005. He was a senior manager of the Audit & Assurance Business Services Department of Ernst & Young Hua Ming in Beijing from 2001 to 2004. From 1995 to 2001, Mr. Tan was a manager at Ernst & Young’s Singapore Office. Mr. Tan is a Singapore certified public accountant. He holds an honors degree in Accounting from the Nanyang Technological University in Singapore.

B. Compensation

Cash Compensation of Directors and Executive Officers

In 2010, we paid aggregate cash compensation of RMB2.4 million (\$0.4 million) to our directors and executive officers.

Equity Incentive Plan

We adopted our 2007 equity incentive plan in March 2007. Our equity incentive plan provides for the grant of options as well as restricted share units, share appreciation rights and other share-based awards, referred to as “awards.” The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. Our board of directors believes that our company’s long-term success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability, experience and qualifications, make important contributions to our business.

Administration

Our 2007 equity incentive plan may be administered by our board of directors or any of its committees. The administrator is authorized to interpret the plan, to prescribe, amend and rescind any rules and regulations relating to the plan, and to make any other determinations that it deems necessary or desirable for the administration of the plan. The administrator determines the fair market

value, terms and conditions of each award agreement, including but not limited to, the exercise price, the time or times when awards may be exercised, any vesting acceleration or waiver of forfeiture, or repurchase restrictions, and other applicable terms.

Table of Contents

Options

The terms and conditions of options granted under our 2007 equity incentive plan are set forth in an award agreement. The term of options granted under the 2007 equity incentive plan will be ten years from the date of grant or such shorter term as provided in the individual award agreement. The compensation committee will determine the acceptable form of consideration for exercise of an option. Such consideration may consist entirely of cash, check, promissory note, ordinary shares, consideration received by us in a cashless exercise, a reduction in the amount of any company liability to the participant, or any combination of the foregoing methods of payment. Under the individual award agreements, to exercise the options granted on March 19, 2007, the optionees are obligated to pay for the consideration entirely by cash.

In the event of termination of employment, a participant may exercise his or her vested options within such period of time as is specified in the individual award agreement, generally 90 days after the date of termination, and any unvested options are immediately forfeited. In no event may a participant exercise an option after its original term has expired.

Change of control

In the event of a change of control, each outstanding option shall be assumed or substituted for by the successor corporation or a parent or subsidiary of the successor corporation. Unless determined by the administrator, if the successor corporation refuses to assume or substitute for the awards, the participant may fully vest in and have the right to exercise the awards, including those that would not otherwise be vested or exercisable. If an award is not assumed or substituted for, the administrator shall notify the participant that the award shall be exercisable for a period up to fifteen days from the date of such notice, and the award shall terminate upon the expiration of such period.

Amendment and termination of plan and awards

Our board of directors may at any time amend, alter, suspend or terminate our 2007 equity incentive plan. Amendments to our 2007 equity incentive plan are subject to shareholder approval, to the extent required by law, or by stock exchange rules or regulations. Any amendment, suspension or termination of our 2007 equity incentive plan may not adversely affect awards already granted without written consent of the recipients of such awards.

In the event of a participant's termination of employment, his or her unvested awards are generally immediately forfeited, and any vested awards are treated in accordance with the terms of the applicable award agreement.

Our board of directors and shareholders authorized the issuance of up to 8,000,000 ordinary shares upon exercise of awards granted under our 2007 equity incentive plan. On March 19, 2007, we granted options to purchase 3,916,520 of our ordinary shares to one of our directors, officers, key employees and one consultant. In 2008, options to purchase 565,000 of our ordinary shares were exercised and options to purchase 140,000 of our ordinary shares were forfeited. In March 2009 and 2011, options to purchase 266,720 and 1,200,000 of our ordinary shares expired, respectively. In December 2009, we granted 1,955,057 restricted shares to a director and various employees and concurrently cancelled 1,744,800 of employee share options that were outstanding under our 2007 equity incentive plan. Of the 1,955,057 restricted shares that were granted, 960,884 shares vested immediately. In 2010, a total 331,391 shares vested while another 7,776 shares were canceled, and in April 2011, a further 327,507 shares were vested. As a result, we do not have any outstanding options to purchase our ordinary shares and 327,503 restricted shares remained unvested as of June 24, 2011.

The following table sets forth certain information regarding our unvested restricted shares as of June 24, 2011.

Name	Unvested restricted shares	Grant date	Vesting date
Zhi Yang Wu	242,981	December 4, 2009	April 1, 2012
David Li	23,326	December 4, 2009	April 1, 2012
Others (1)	61,196	December 4, 2009	April 1, 2012

(1) Consists of employees that are not our directors or executive officers.

Employment Agreements

We have entered into employment agreements with each of our executive officers, which have substantially similar terms. Under these agreements, each of our executive officers is employed for a specified time period, but we may terminate his or her employment for “cause” at any time. These agreements do not provide for any special termination benefits, nor do we have any other arrangements with these executive officers for special termination benefits. Each executive officer has agreed to hold in strict confidence and not to use, except for the benefit of our company, any proprietary information, technical data, trade secrets and know-how of our company or the confidential or proprietary information of any third party, including our affiliated entities and our subsidiaries, received by our company. Each of these executive officers has also agreed not to engage in any other employment, occupation, consulting or other business activity directly related to the business in which we are involved, or engage in any other activities that conflict with his or her obligations to us during the term of his or her employment and for three years following the termination of his or her employment.

[Table of Contents](#)

C. Board Practices

Board Composition

Our board of directors consists of five members, three of whom are independent directors within the meaning of Section 303A of the NYSE Manual and Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

We are a “controlled company” as defined under NYSE Manual Section 303A. As a result, for so long as we remain a controlled company as defined in that rule, we are exempt from, and our shareholders generally are not provided with the benefits of, some of the NYSE corporate governance requirements, including:

- the establishment of a compensation committee composed entirely of independent directors; and
- the establishment of a nomination committee composed entirely of independent directors.

Board Committees

To enhance our corporate governance, we have established three committees under the board of directors: the audit committee, the nominating and corporate governance committee and the compensation committee. We have adopted a charter for each of these committees. The committees have the following functions and members.

Audit committee

Our audit committee reports to the board of directors regarding the appointment of our independent public accountants, the scope and results of our annual audits, compliance with our accounting and financial policies and management’s procedures and policies relating to the adequacy of our internal accounting controls. The current members of our audit committee are Mr. Zacky Sun, Mr. Xin Zhang and Professor Pei De Lou. Mr. Zacky Sun, Mr. Xin Zhang and Professor Pei De Lou satisfy the “independence” requirements of Section 303A of the NYSE Manual and Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Mr. Zacky Sun acts as the chairman of our audit committee and meets the criteria of our audit committee financial expert as set forth under applicable SEC rules. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things.

- the appointment, re-appointment, evaluation, compensation, oversight and termination of the work of our independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting);
- ensuring that it receives from our independent auditor a formal written statement attesting to the auditor’s independence and describing all relationships between the independent auditor and us;
- pre-approving any audit and non-audit services, including tax services, to be provided by our independent auditor in accordance with NYSE rules;
- reviewing and discussing our annual audited financial statements and quarterly financial statements with management and our independent auditor;
- reviewing and discussing with our independent auditor all critical accounting policies and practices to be used by us in preparing our financial statements, all alternative treatments of financial information within U.S. GAAP, and other material communications between our independent auditor and management;
- reviewing and discussing our policies with respect to risk assessment and risk management;
- reviewing and discussing, with management and counsel, any legal matters that may have a material impact on us and any material reports or inquiries from regulatory or governmental agencies;
- establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing matters or potential violations of law, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters or potential violations of law;
- annually reviewing the independent auditors’ report describing the auditing firm’s internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review of the independent auditors and all relationships between the independent auditors and us;
- setting hiring policies for employees or former employees of the independent auditors;

- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;

Table of Contents

- meeting separately and periodically with management, the internal auditors and the independent auditors and reporting regularly to the full board of directors; and
- reviewing and approving policies and procedures with respect to proposed transactions between us and our related parties, and approving in advance all proposed related-party transactions as defined in Item 404 of Regulation S-K promulgated by the SEC.

Nominating and corporate governance committee

Our nominating and corporate governance committee assists the board of directors in identifying individuals qualified to become members of our board of directors and in determining the composition of the board and its committees. The current members of our nominating and corporate governance committee are Mr. Xin Zhang, who acts as the chairman of our nominating and corporate governance committee, Professor Pei De Lou and Mr. Zhi Yang Wu. Mr. Xin Zhang and Professor Pei De Lou satisfy the “independence” requirements of Section 303A of the NYSE Manual.

Our nominating and corporate governance committee will be responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- reviewing the continued board membership of a director upon a significant change in such director’s principal occupation;
- identifying and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as the nominating and corporate governance committee itself;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken;
- establishing criteria and processes for, and leading the board and each committee of the board in, its annual performance self-evaluation;
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance; and
- ensuring that the composition of the board facilitates our ability to maintain our status as a foreign private issuer.

Compensation committee

Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. In addition, the compensation committee reviews share-based compensation arrangements for all of our other employees. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his or her compensation is deliberated. The current members of our compensation committee are Professor Pei De Lou, who acts as the chairman of our compensation committee, Mr. Zacky Sun and Mr. Zhi Yang Wu. Mr. Zacky Sun and Professor Pei De Lou satisfy the “independence” requirements of Section 303A of the NYSE Manual.

Our compensation committee will be responsible for, among other things:

- approving and overseeing the total compensation package for our executives;
- reviewing and making recommendations to the board with respect to the compensation of our directors and officers;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation, including any bonus compensation, of our chief executive officer based on this evaluation;
- reviewing the results of, and procedures for, the evaluation of the performance of other executive officers, including any bonus compensation;

- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, administering these plans and reviewing and determining share-based compensation for our directors and officers;
- reviewing and making recommendations to the board regarding all new employment, consulting, retirement and severance agreements and arrangements proposed for our executives; and
- selecting peer groups of companies to be used for purposes of determining competitive compensation packages.

[Table of Contents](#)

Duties of Directors

Under British Virgin Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonable director would exercise in the same circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registering of such shares in our share register.

Interested Transactions

A director may vote in respect of any contract or transaction in which he is interested, provided that the nature of the interest of any director in such contract or transaction shall be disclosed by him or her at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee of directors that a director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company will be sufficient disclosure, and, after such general notice, it will not be necessary to give special notice relating to any particular transaction.

Remuneration and Borrowing

With the prior or subsequent approval by our shareholders, our directors may determine the remuneration to be paid to the directors. The emoluments of all officers are to be fixed by our directors. Our compensation committee will assist our directors in reviewing and approving the compensation structure for our directors. Our directors may exercise all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of our company or of any third party subject to our amended and restated articles of association.

Qualification

There is no shareholding qualification for directors. Further, shareholding qualification for directors may not be fixed by our company in a general meeting.

Terms of Directors and Executive Officers

At each general meeting of the shareholders of our company, all such directors whose term expires are required to retire from office and are eligible for re-election. All of these directors will retain office until the close of such general meeting.

Limitation on Liability and Indemnification Matters

British Virgin Islands law allows us to indemnify our directors, officers and auditors acting in relation to any of our affairs against actions, costs, charges, losses, damages and expenses incurred by reason of any act done or omitted in the execution of their duties as our directors, officers and auditors, provided that the directors, officers and auditors acted honestly and in good faith and in what he believed to be in the best interest of our company.

Under our amended and restated memorandum and articles of association, we may indemnify our directors, officers and liquidators against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such persons in connection with actions, suits or proceedings to which they are party or are threatened to be made a party by reason of their acting as our directors, officers or liquidators. To be entitled to indemnification, these persons must have acted honestly and in good faith and in the best interest or not opposed to the interest of our company and they must have had no reasonable cause to believe their conduct was unlawful.

D. Employees

See “Item 4. Information on the Company—B. Business Overview—Employees.”

[Table of Contents](#)

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 of the Exchange Act, of our ordinary shares as of June 24, 2011 for:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5.0% of our shares.

	Shares beneficially owned(1)(2)	
	Number	Percentage
Directors and executive officers:		
Zhi Yang Wu(3)	33,191,361	57.3%
Rui Lin Wu(4)	32,200,000	55.6%
All Directors and Executive Officers as a Group	33,191,361	57.3%
Principal shareholder:		
Qiao Xing Universal Resources, Inc.(5)	32,200,000	55.6%

-
- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the ordinary shares.
- (2) The percentage of beneficial ownership of each listed person is based on 57,893,248 ordinary shares outstanding as of June 24, 2011 and any ordinary shares underlying share options exercisable by such person within 60 days of the date of this annual report but excludes ordinary shares underlying options held by any other person.
- (3) Includes 991,361 ordinary shares held by Mr. Zhi Yang Wu and 32,200,000 ordinary shares held by Xing. Excluding equity interest owned by his brother, Mr. Zhi Jian Wu Li, and his father, Mr. Rui Ling Wu, Mr. Zhi Yang Wu does not own any equity interest in Xing. Mr. Zhi Yang Wu disclaims ownership of the ordinary shares held by Xing except to the extent of his pecuniary interest therein.
- (4) Includes 32,200,000 ordinary shares held by Xing. Mr. Rui Lin Wu is the chairman and chief executive officer of Xing. Mr. Zhi Jian Wu Li, brother of our chairman and son of our vice chairman, owned an aggregate of 7.1% equity interest in Xing through Qiao Xing Trust and Wu Holdings Ltd. as of June 24, 2011. Mr. Rui Lin Wu also owned 41.5% equity interest in Xing as of June 24, 2011. Mr. Rui Lin Wu disclaims ownership of the ordinary shares held by Xing except to the extent of his pecuniary interest therein.
- (5) Xing is a British Virgin Islands company currently listed on the Nasdaq Global Market. Mr. Zhi Jian Wu Li, brother of our chairman and son of our vice chairman, owned an aggregate of 7.1% equity interest in Xing through Qiao Xing Trust and Wu Holdings Ltd. as of June 24, 2011. Mr. Rui Lin Wu also owned a 41.5% equity interest in Xing as of June 24, 2011. The address of Xing is Qiao Xing Science Technological & Industrial Zone, Tangquan, Huizhou, Guangdong, 516023, People's Republic of China.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of June 24, 2011, our company had a total of 57,893,248 of its ordinary shares held by four record holders.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Equity Incentive Plan

See “Item 6. Directors, Senior Management and Employees—B. Compensation— Equity Incentive Plan.”

Service Transactions

CECT received handset processing fees of approximately RMB6.6 million and RMB1.4 million in 2008 and 2009, respectively from QXCI, which ceased to be a subsidiary of Xing in November 2009.

Convertible Notes Held by Xing

We redeemed \$30,706,000 of the principal amount of the Notes that were held by Xing in 2009. In addition, we also paid to Xing \$1,073,000 of interest that was accrued on the Notes as of the date of redemption.

[Table of Contents](#)

Cash Advances To and From Related Parties

In prior years, as part of a cash management arrangement, we made cash advances to, and received cash advances from, a group of related parties at the direction and discretion of Xing. The group of related parties consists of Xing, Mr. Zhi Yang Wu, Qiao Xing Group and QXCI. Qiao Xing Group is controlled by Mr. Zhi Yang Wu and Mr. Rui Lin Wu. QXCI is a subsidiary of Xing until November 30, 2009, when it was disposed of by Xing.

In 2008, we made advances and repayments to, and received advances and repayments from, the related party group of RMB49.6 million and RMB57.7 million, respectively. The net balance due to the related parties as of December 31, 2008 was RMB11.2 million. In 2009, we made advances and repayments to, and received advances and repayments from, the related party group of RMB56.9 million and RMB43.9 million, respectively. Taking into account the reclassification of RMB7.4 million to third-party balances following the disposal by Xing of its entire equity interest in QXCI in November 2009, the net balance due to the related parties as of December 31, 2009 was RMB5.6 million. In 2010, we received advances and repayments from the related party group of RMB2.1 million. Taking into account the exchange differences of RMB0.4 million arising from the translation of foreign currency-denominated debts, the net balance due to the related parties as of December 31, 2010 was RMB8.1 million (\$1.2 million).

The cash advances were unsecured, non-interest bearing and had no fixed repayment terms.

Guarantees and Pledges

Certain affiliates also provided guarantees and pledges for CECT's short-term borrowings. Qiao Xing Group made guarantees for CECT of RMB160.0 million, RMB50.0 million and RMB50.0 million (\$7.6 million) as of December 31, 2008, 2009 and 2010, respectively. Qiao Xing Group and certain of our directors jointly provided guarantees for CECT of RMB360.0 million, RMB290.0 million and RMB260.0 million (\$39.4 million) as of December 31, 2008, 2009 and 2010, respectively. Xing provided guarantees of RMB336.0 million, RMB285.0 million and RMB106.0 million (\$16.1 million) as of December 31, 2008, 2009 and 2010, respectively. Certain directors provided guarantees of RMB218.5 million, RMB68.5 million and RMB30.0 million (\$4.5 million) as of December 31, 2008, 2009 and 2010, respectively. We have not made any personal loans to our directors or officers in the past. We provided guarantees to QXCI for bank borrowings in the amount of RMB150.0 million as of December 31, 2008.

Non-Competition Arrangement

In connection with the initial public offering of our ordinary shares in May 2007, we entered into a non-competition agreement with Xing, QXCI and Mr. Rui Lin Wu, which will remain valid until Xing or Mr. Rui Lin Wu or any family member of Mr. Rui Lin Wu does not directly or indirectly own any of our shares, or until termination of such agreement through the written consent of the parties. This agreement provides that Xing, QXCI and Mr. Rui Lin Wu will not and will procure their subsidiaries and Mr. Wu's family members will not, solely or jointly, or through any person, company, enterprise or unit other than us and our subsidiaries, develop, carry on, participate in, engage in, or be involved in any businesses or activities that result in or may result in direct or indirect competition with our business, including but not limited to (i) making investments in businesses that result in or may result in direct or indirect competition with our business; (ii) soliciting any business, for itself or for other persons, from any person that has business relationships with us; (iii) soliciting the employment of, or hiring, any officer, directors or employee of our company and (iv) interfering with our business or encouraging other persons to interfere with our business. This arrangement will also prohibit Xing and Mr. Rui Lin Wu from using knowledge of our business and strategy to our detriment and provide our company with the right of first refusal over new business opportunities that come to the attention of Xing, QXCI or Mr. Rui Lin Wu and his family members, which are reasonably likely to result in direct or indirect competition with our business or are reasonably associated with our business. This non-competition arrangement will not affect QXCI's ability to conduct its current business, which includes the manufacture and sale of COSUN-branded economy mobile handsets for the PRC market.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See our consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we are involved in a number of legal proceedings, both as plaintiff and as defendant, arising in the ordinary course of our business, including intellectual property right infringement claims that have been brought against us. We do not expect any of

these claims or actions, individually or in the aggregate, to have a material adverse effect on our business, results of operations or financial condition and we are not aware of any pending or threatened litigation, arbitration or administrative proceedings against us that could have such an effect.

Dividend Policy

We have never declared or paid dividends, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

[Table of Contents](#)

Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ordinary shares have been listed on the NYSE since May 3, 2007 under the symbol “QXM.” The following table sets forth the high and low daily closing trading prices of our ordinary shares on the NYSE for the periods indicated:

	Trading price	
	High	Low
	(\$)	(\$)
Annual highs and lows:		
Year ended December 31, 2007 (from May 3, 2007)	15.48	6.76
Year ended December 31, 2008	8.89	1.56
Year ended December 31, 2009	5.24	1.32
Year ended December 31, 2010	4.58	2.05
Quarterly highs and lows:		
First quarter 2009	2.95	1.32
Second quarter 2009	4.33	2.00
Third quarter 2009	3.58	2.52
Fourth quarter 2009	5.24	2.75
First quarter 2010	3.91	2.05
Second quarter 2010	3.14	2.10
Third quarter 2010	3.61	2.30
Fourth quarter 2010	4.58	3.29
First quarter 2011	5.96	3.60
Monthly highs and lows:		
December 2010	4.58	3.30
January 2011	5.96	4.10
February 2011	5.06	4.31
March 2011	4.73	3.60
April 2011	4.63	2.75
May 2011	2.83	2.52
June 2011 (through June 24, 2011)	3.18	1.80

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares have been listed on the NYSE since May 3, 2007 under the symbol “QXM.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

[Table of Contents](#)

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-142162), as amended, first filed with the SEC on April 17, 2007. Our shareholders adopted our amended and restated memorandum and articles of association by a special resolution on March 19, 2007, which took effect upon filing on May 3, 2007.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described elsewhere in this annual report.

D. Exchange Controls

Pursuant to the Foreign Currency Administration Rules promulgated in 1996 and amended in 1997 and 2008 and various regulations issued by SAFE and other relevant PRC government authorities, RMB is freely convertible only to the extent of current account items, such as trade related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, require prior approval from SAFE or its provincial branch for conversion of RMB into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local counterpart. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into RMB.

E. Taxation

British Virgin Islands Taxation

We are exempt from all provisions of the Income Tax Act of the British Virgin Islands, including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by us to persons who are not persons resident in the British Virgin Islands. Capital gains realized with respect to any of our shares, debt obligations or other securities by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands. No estate, inheritance, succession or gift tax rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any of our shares, debt obligations or other securities.

No stamp duty is payable in the British Virgin Islands on a transfer of shares in a British Virgin Islands business company.

U.S. Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to you if you are a U.S. Holder (as defined below) of an investment in the ordinary shares and you hold the ordinary shares as capital assets. This discussion is based on the tax laws of the United States as in effect on the date of this annual report, including the Internal Revenue Code of 1986, as amended, U.S. Treasury regulations in effect as of the date of this annual report and judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply on a retroactive basis and could affect the tax consequences described below.

The following discussion does not deal with the U.S. federal income tax consequences relevant to you if you are in a special tax situation such as:

- banks;
- certain financial institutions;
- insurance companies;

- broker dealers;
- U.S. expatriates;
- traders that elect to mark-to-market;
- tax-exempt entities;
- persons that have a functional currency other than the U.S. dollar;

Table of Contents

- persons liable for alternative minimum tax;
- persons holding an ordinary share as part of a straddle, hedging, conversion or integrated transaction; or
- persons that actually or constructively own 10% or more of our voting stock.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL INCOME TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ORDINARY SHARES.

For purposes of this discussion, you are a U.S. Holder if you are a beneficial owner of ordinary shares and you are,

- an individual citizen or resident of the United States as determined for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) was in existence on August 20, 1996, was treated as a U.S. person under the Internal Revenue Code on the previous day and has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership or other entity taxable as a partnership that holds ordinary shares, your tax treatment will depend on your status and the activities of the partnership. If you are a partner of a partnership holding our ordinary shares, you should consult your tax advisor regarding the U.S. federal income tax consequences to you of the purchase, ownership and disposition of our ordinary shares.

Taxation of dividends and other distributions on the ordinary shares

Subject to the PFIC rules discussed below, the gross amount of all our distributions to you with respect to the ordinary shares will be included in your gross income as dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

If you are a non-corporate U.S. Holder, including an individual, for taxable years beginning before January 1, 2013, dividends may constitute “qualified dividend income” which is taxed at the lower long-term capital gains rate provided that (1) the ordinary shares are readily tradable on an established securities market in the United States, (2) we are not a PFIC for either our taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. Under Internal Revenue Service authority, our ordinary shares will be considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they continue to be listed on the New York Stock Exchange. However, as discussed below, we believe we were a PFIC for our taxable year ended December 31, 2010 and we may continue to be a PFIC in the current and future taxable years. You are urged to consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ordinary shares.

Dividends will constitute foreign source income for U.S. foreign tax credit limitation purposes. For this purpose, dividends distributed by us with respect to the ordinary shares will be “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that any distribution we make will be treated as a dividend.

If PRC withholding taxes apply to dividends paid to you with respect to the ordinary shares, such withholding taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. U.S. Holders should consult their own tax advisors regarding the creditability of any PRC tax.

Taxation of disposition of ordinary shares

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ordinary share equal to the difference between the amount realized for the ordinary share and your tax basis in the ordinary share. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual, who has held the ordinary share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

If PRC withholding tax were to apply to a sale of ordinary shares, you generally would only be able to claim a foreign tax credit for the amount withheld to the extent that you have foreign source income. However, in the event that PRC tax is withheld from a sale of ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may be able to treat the gain from such a disposition as foreign source for foreign tax credit limitation purposes. If PRC tax is withheld, you should consult your own tax advisor regarding your eligibility for the benefits of the income tax treaty between the United States and the PRC and the creditability of any PRC tax.

[Table of Contents](#)

Passive foreign investment company

We believe that we were a PFIC for our taxable year that ended December 31, 2010, and we may continue to be a PFIC in the current and future taxable years. Our actual PFIC status in any taxable year will not be determinable until the close of the taxable year. As a result, our PFIC status may change. If we are a PFIC for any year during which you hold ordinary shares, unless you make a timely mark-to-market election (as described below), we will continue to be treated as a PFIC to you for all succeeding years during which you hold ordinary shares.

A non-U.S. corporation is considered to be a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income, or
- at least 50% of the average quarterly value of its assets during a taxable year is derived from assets that produce, or that are held for the production of, passive income.

For purposes of the asset test and the income test described above, we will be treated as owning a proportionate share of the assets and a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

In applying the asset test described above, the value of our assets will be deemed to be equal to the sum of the aggregate value of our outstanding equity plus our liabilities. For purposes of the asset test, our goodwill, which is measured as the sum of the aggregate value of outstanding equity plus liabilities, less the value of known assets, should be treated as a non-passive asset. Therefore, a decrease in the market price of our ordinary shares and an associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. If there is such a reduction in goodwill and the value of our non-passive assets, the percentage of the value of our assets that is attributable to passive assets may increase, and if such percentage, based on an average of the quarterly values during a taxable year, exceeds 50%, we will be a PFIC for such taxable year. Accordingly, fluctuations in the market price of our shares may result in us being a PFIC for any taxable year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we have on hand.

If we are a PFIC for any taxable year during which you hold ordinary shares, dividends paid by us to you in that taxable year or the following taxable year will not be eligible for the reduced rate of taxation applicable to non-corporate U.S. Holders, including individuals. See “Taxation of dividends and other distributions on the ordinary shares” above. Additionally, you will be subject to special tax rules, discussed below, with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ordinary shares, unless you make a timely “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period prior to the current year for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably on a daily basis over your holding period for the ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

For the purposes of the PFIC rules, if we are a PFIC for any taxable year during which you hold ordinary shares, you generally would be treated as owning a proportional share of the stock of any of our non-U.S. subsidiaries, or any non-U.S. corporation in which we have an equity investment, that is a PFIC.

Alternatively, if the ordinary shares constitute “marketable stock” in a PFIC, you may make a mark-to-market election for the ordinary shares to elect out of the tax treatment discussed above with respect to the ordinary shares. Marketable stock is stock that is regularly traded in other than de minimis quantities on a qualified exchange, which includes the New York Stock Exchange. We expect that our ordinary shares will qualify as marketable stock for these purposes. If you make a mark-to-market election for the ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of your taxable year over your adjusted basis in such ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ordinary shares, as well as to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss

does not exceed the net mark-to-market gains previously included for such ordinary shares. Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. You may make a timely mark-to-market election by filing Internal Revenue Service Form 8621 with your original or amended U.S. federal income tax return for the first taxable year in which we are a PFIC and you hold ordinary shares by the due date of the return (including extensions). If we are a PFIC for any taxable year, you would not be able to make a mark-to-market election with respect to any of our non-U.S. subsidiaries, or any non-U.S. corporation in which we have an equity investment, that is a PFIC that you would be treated as indirectly owning under the PFIC rules.

In addition, we do not intend to prepare or provide you with the information necessary to make a “qualified electing fund” election.

If you hold ordinary shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 (or any other form specified by the U.S. Department of the Treasury) for the applicable year.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ordinary shares.

[Table of Contents](#)

Information reporting and backup withholding

Dividend payments with respect to ordinary shares and proceeds from the sale, exchange or other disposition of ordinary shares may be subject to information reporting to the Internal Revenue Service and possible backup withholding at a current rate of 28%. Backup withholding will not apply, however, if you are an exempt recipient or if you furnish a correct taxpayer identification number and make any other required certification. If you are required to establish your exempt status, you must provide such certification on Internal Revenue Service Form W-9. You are urged to consult your tax advisor regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner.

Certain U.S. Holders who are individuals that hold certain foreign financial assets (which may include ordinary shares) are required to report information relating to such assets, subject to certain exceptions. You should consult your tax advisor regarding the effect, if any, of requirement on your ownership and disposition of ordinary shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 under the Securities Act with respect to our ordinary shares.

In accordance with the New York Stock Exchange Listing Manual Rule 203.01, we will post this annual report on Form 20-F on our website at www.qxmc.com. In addition, we will provide hard copies of our annual report free of charge to shareholders upon request.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, and are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall by no more than 0.3% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. This change in policy has resulted in more than 15% appreciation of Renminbi against the U.S. dollar from July 2005 to June 24, 2011. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Because substantially all of our earnings are denominated in Renminbi, any appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our balance sheet position and financial results reported in U.S. dollar terms without giving

effect to any underlying change in our business or results of operations. In addition, fluctuations in the exchange rate between the U.S. dollar and the Renminbi would affect the relative purchasing power of our U.S. dollar-denominated cash assets and the Renminbi value of our U.S. dollar-denominated liabilities. Fluctuations in the exchange rate will also affect the relative value of any dividend we may issue that will be exchanged into U.S. dollars and the earnings from and value of any U.S. dollar-denominated investments we make in the future.

The net assets of Qiao Xing Mobile Communication Co., Ltd., whose functional currency is the U.S. dollar, results in our exposure to foreign currency exchange risk. The translation of the net assets of Qiao Xing Mobile Communication Co., Ltd. to Renminbi during consolidation resulted in a translation gain of RMB4.9 million (\$0.7 million) in 2010, which was recognized as a component of other comprehensive loss as of December 31, 2010. In addition, Qiao Xing Mobile Communication Co., Ltd. also recorded an exchange loss of RMB3.8 million (\$0.6 million) on the revaluation of the principal amount of the Notes outstanding as at December 31, 2010. If the exchange rate of the Renminbi against the U.S. dollar as of December 31, 2010 had decreased by 10% from 6.6000 to 5.9400, and the average exchange rate in 2010 had remained the same, the gain on the translation of the net assets of Qiao Xing Mobile Communication Co., Ltd. in 2010 would have been increased by RMB15.8 million (\$2.4 million) and the loss on revaluation of the Notes would have increased by RMB12.8 million (\$1.9 million).

Table of Contents

Only limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest rates for our bank deposits and borrowings. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-bearing instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may be lower, or interest expenses may be higher, than expected due to changes in market interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

On May 15, 2008, we entered into and completed the transactions contemplated by a Securities Purchase Agreement (the “SPA”) with DKR SoundShore Oasis Holding Fund Ltd. and CEDAR DKR Holding Fund Ltd. (the “Investors”) pursuant to which we issued, and the Investors purchased, an aggregate of \$70.0 million of our 4.0% senior convertible notes that came with 1,648,721 common stock purchase warrants. The consideration paid by the Investors comprised a combination of 6,966,666 shares of our ordinary shares that were owned by the Investors, valued at approximately \$48,349,000, and cash of \$21,651,000. All ordinary shares submitted by the Investors in exchange for the Notes were cancelled. In addition, we also issued to our placement agent 942,127 common stock purchase warrants (collectively with the warrants issued to the Investors, the “Warrants”) at terms identical to those issued to the Investors.

The following discussion on the material terms of the transaction should be read in conjunction with, and is qualified in its entirety by, the SPA and the exhibits thereto.

The material terms and conditions of the Notes are summarized as follows:

- the Notes are unsecured and mature on May 15, 2011;
- the Notes bear interest at a rate of 4.0% per annum, payable in cash in arrears on a calendar semi-annual basis beginning June 30, 2008;
- the Notes are convertible at the holders’ option into our ordinary shares at an initial conversion price of \$7.43 per ordinary share (which represents a 10% premium to the arithmetic average of the daily volume-weighted average price (“VWAP”) of our ordinary shares during the five trading day period ending on the day immediately prior to the date of execution of the SPA), subject to adjustments as provided for in the Notes;
- the conversion price for our ordinary shares is subject to reset if the average of the daily VWAP of our ordinary shares for the five consecutive trading days ending on each three-month anniversary of the issuance date of the Notes until maturity (each a “Reset Date”) is less than \$6.76. In that event, the conversion price is reset to a price equal to 92.5% of the arithmetic average of the daily VWAP of our common stock for the five trading days ending on the applicable Reset Date. In no event will the conversion price be reset to a price less than \$4.05 per share. The conversion price of the Notes was reset to \$4.05 per share on November 15, 2008;
- the Notes cannot be converted if, after giving effect to such conversion, the holders of the Notes (together with their affiliates) would beneficially own in excess of 9.99% of our ordinary shares outstanding immediately after giving effect to the conversion;
- the Notes require an automatic re-pricing of the conversion price if we make certain sales of our ordinary shares or ordinary share equivalents in a capital-raising transaction at a price below the conversion price;
- the holders of the Notes can require us to redeem the Notes at any time on or after the 18 month anniversary of the issuance date of the Notes in an amount equal to the sum of (a) the outstanding principal of the Notes, and (b) the accrued and unpaid interest thereon;
- in the event of a default, change of control and certain other fundamental transactions, the holders of the Notes have the right to require us to redeem all or any portion of the Notes at a price equal to the greater of (i) the amount to be redeemed multiplied by a redemption premium of 125% and (ii) the amount to be redeemed multiplied by the quotient determined by dividing the closing bid price of our ordinary shares on the date immediately preceding such event by the conversion price of the Notes;

- all principal, interest, late charges and other amounts due under the Notes that are payable in cash shall be settled in U.S. dollars in an amount equal to the applicable U.S. dollar cash payment due under the terms of the Notes multiplied by 6.99 and divided by the exchange rate of one U.S. dollar to Renminbi on the date such payment is due; and
- we are required under the terms of a Registration Rights Agreement entered into concurrently with the SPA to file with the SEC a registration statement to register the ordinary shares issuable upon the conversion of the Notes and the exercise of the Warrants to permit the resale of such ordinary shares to the public. The registration statement was filed by the Company on June 27, 2008 and was declared effective by the SEC on July 11, 2008.

[Table of Contents](#)

The material terms and conditions of the Warrants are summarized as follows:

- each Warrant is exercisable to purchase one ordinary share;
- the initial exercise price of each Warrant is \$8.91 per share, subject to adjustments as provided for in the Warrant;
- the Warrants are exercisable at any time during a period of five years from May 15, 2008, the date of issuance;
- the Warrants contain a “cashless exercise” feature if the registration statement covering the shares underlying the Warrants is not available for the resale of the ordinary shares upon the exercise of the Warrants;
- the Warrants contain certain limitations on the exercise thereof in the event that the holder would beneficially own in excess of 9.99% of our ordinary shares outstanding immediately after giving effect to such exercise; and
- the Warrants require an automatic re-pricing of the exercise price if we make certain sales of our ordinary shares or ordinary share equivalents in a capital-raising transaction at a price below the exercise price of the Warrants.

On August 19, 2008, the holders of the Notes exercised the option to convert approximately \$8,251,000 of the principal amount of the Notes and accrued interest thereon of approximately \$46,000 into 1,511,397 ordinary shares of the Company at a conversion price of \$5.49 per share.

On March 31, 2009, Xing, entered into an agreement to purchase \$30.0 million of our outstanding Notes at an aggregate purchase price of \$24.0 million from certain holders of the Notes. In November 2009, we redeemed the Notes that were purchased by Xing for \$30,706,000.

In 2009, certain holders of the Notes exercised the option to convert \$16,073,000 of the principal amount of the Notes plus accrued interest thereon of \$590,000 into 4,114,286 ordinary shares at a conversion price of \$4.05 per share.

In February 2011, the full amount of the Notes outstanding as of December 31, 2010 plus accrued interest thereon of \$1,450,000 were converted into 4,549,453 ordinary shares at a conversion price of \$4.05 per share.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) of the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2010, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in U.S. Securities Exchange Act Rules 13a-15(f) and 15d-15(f). For the year ended December 31, 2010, under the supervision, and with the participation of our company's management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit the company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Zacky Sun, an independent director and member of our audit committee, is an audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and advisors. We hereby undertake to provide to any person without charge, a copy of our code of ethics within ten working days after we receive such person's written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our independent registered public accounting firm for the periods indicated. We did not pay any other fees to our auditors

during the periods indicated below.

(Amounts in thousands)	Year ended December 31,		
	2009(1)	2010(2)	
	(RMB)	(RMB)	(\$)
Audit fees	1,288	990	150
Audit-related fees	—	—	—

Table of Contents

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- (1) *The audit fees billed by KPMG, our prior independent registered public accounting firm, in connection with the re-issuance of their audit report on our financial statements for the year ended December 31, 2007 was \$39,000. The audit fees billed by Crowe Horwath LLP, our independent registered public accounting firm, in connection with the audit of our financial statements for the year ended December 31, 2009 was \$150,000.*
 - (2) *The audit fees billed by Crowe Horwath LLP, our independent registered public accounting firm, in connection with the audit of our financial statements for the year ended December 31, 2010 was \$150,000.*

The policy of our Audit Committee is to pre-approve all audit and non-audit services provided by our independent registered public accounting firm, other than those for de minimus services which are approved by the Audit Committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In connection with the issuance of the Notes on May 15, 2008, we issued approximately \$48,349,000 in principal amount of the Notes in exchange for 6,966,666 of our ordinary shares that were then owned by the Investors of the Notes. All ordinary shares submitted by the Investors in exchange for the Notes were subsequently canceled.

On September 17, 2008, our board of directors approved a share repurchase program under which we may repurchase up to an aggregate of \$20.0 million worth of our issued and outstanding ordinary shares. The repurchases will be made from time to time on the open market at prevailing market prices, in negotiated transactions off the market, in block trades, pursuant to a 10b5-1 plan or otherwise. The repurchases will be made subject to restrictions relating to volume, price and timing. The timing and extent of any purchases will depend upon market conditions, the trading price of our shares and other factors. As of the date of this report, we have not made any repurchase of our ordinary shares under the approved program.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On January 8, 2009, we were notified that effective December 8, 2008, the personnel of Grobstein, Horwath & Company LLP, or GHC, joined Crowe Horwath LLP, or Crowe, resulting in the resignation of GHC as our independent registered public accounting firm. On January 12, 2009, our board of directors appointed Crowe as our new independent registered public accounting firm.

ITEM 16G. CORPORATE GOVERNANCE

There are no significant differences in the corporate governance practices followed by us as compared to those followed by US domestic companies under the NYSE Listing Standards, except as follows:

- As a "controlled company" as defined under Section 303A of the NYSE Listed Company Manual, we are exempt from certain corporate governance requirements. Relying on this exemption, Mr. Zhi Yang Wu, who does not satisfy the "independence" requirements of Section 303A of the NYSE Listed Company Manual, serves as a member of our nominating and corporate governance committee and compensation committee;
- We do not have formal corporate governance guidelines similar to those required for U.S. domestic companies; and
- Our non-management directors do not schedule regular executive sessions similar to those followed by U.S. domestic companies.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Qiao Xing Mobile Communication Co., Ltd. and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1	Amended and Restated Memorandum of Association ⁽¹⁾
1.2	Second Amended and Restated Memorandum and Articles of Association of the Registrant ⁽¹⁾
4.1	Equity Incentive Plan ⁽¹⁾
4.2	Form of Employment Agreement between the Registrant and a Senior Executive Officer of the Registrant ⁽¹⁾
4.3	Non-Competition Agreement ⁽¹⁾
4.4	Securities Purchase Agreement, dated May 15, 2008 ⁽²⁾
4.5	Registration Rights Agreement, dated May 15, 2008 ⁽²⁾
8.1	Subsidiaries of the Registrant
12.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of Chief Executive Officer and Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Crowe Horwath LLP, dated June 30, 2011

(1) Incorporated by reference from the Registrant's F-1 registration statement (File No. 333-142162), as amended, first filed with the SEC on April 17, 2007.

(2) Incorporated by reference from the Registrant's 6-K furnished on May 19, 2008.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

QIAO XING MOBILE COMMUNICATION CO., LTD.

Date: June 30, 2011

By: /s/ Zhi Yang Wu

Name: Zhi Yang Wu

Title: Chairman

Table of Contents

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2009 and 2010</u>	F-3
<u>Consolidated Statements of Operations for the Years Ended December 31, 2008, 2009 and 2010</u>	F-4
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2008, 2009 and 2010</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2009 and 2010</u>	F-6
<u>Consolidated Statements of Equity for the Years Ended December 31, 2008, 2009 and 2010</u>	F-8
<u>Notes to the Consolidated Financial Statements</u>	F-9

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Qiao Xing Mobile Communication Co., Ltd.

We have audited the accompanying consolidated balance sheets of Qiao Xing Mobile Communication Co., Ltd. and subsidiaries (the “Company”) as of December 31, 2009 and 2010, and the related consolidated statements of operations, comprehensive income (loss) cash flows and equity for each of the years in the three year period ended December 31, 2010. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Qiao Xing Mobile Communication Co., Ltd. and subsidiaries as of December 31, 2009 and 2010, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, effective January 1, 2009, the Company adopted new accounting guidance relating to determining whether an instrument (or embedded feature) is indexed to an entity's own stock.

Our audits also included the translation of Renminbi (RMB) amounts into United States dollar (US\$) amounts and, in our opinion, such translation, where provided, has been made in conformity with the basis stated in the last paragraph of Note 2(q) to the consolidated financial statements. Such United States dollar amounts are presented for the convenience of the readers.

/s/ Crowe Horwath LLP

Sherman Oaks, California
June 30, 2011

[Table of Contents](#)

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share data)

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Assets			
Current assets:			
Cash	3,129,070	2,755,505	417,501
Restricted cash	251,720	37,758	5,721
Accounts receivable, net	114,689	239,390	36,271
Inventories	97,146	59,969	9,086
Prepayments to suppliers	181,550	86,302	13,076
Prepaid expenses and other current assets	36,007	33,683	5,103
Assets held for sale	163,000	—	—
Deferred income taxes	16,249	—	—
Total current assets	3,989,431	3,212,607	486,758
Property, machinery and equipment, net	23,708	20,830	3,156
Equity investment, at cost	5,000	—	—
Goodwill	112,814	—	—
Other intangible assets, net	4,433	—	—
Deferred income taxes	1,207	—	—
Total assets	4,136,593	3,233,437	489,914
Liabilities and Equity			
Current liabilities:			
Short-term borrowings	884,708	446,000	67,576
Accounts payable	60,751	39,737	6,021
Prepayments from customers	16,370	3,902	591
Accrued liabilities	34,590	19,178	2,906
Amounts due to related parties	5,568	8,136	1,233
Other payables and current liabilities	56,933	8,078	1,223
Embedded derivative liability	39,978	20,113	3,047
Convertible notes	112,162	112,162	16,994
Total current liabilities	1,211,060	657,306	99,591
Warrant liability	22,637	17,650	2,674
Total liabilities	1,233,697	674,956	102,265
Commitments and contingencies			
Equity:			
Ordinary shares:			
Par value: none			
Authorized: Unlimited			
Issued and outstanding: 52,684,901 and 53,016,292 shares, respectively	1,191,071	1,191,071	180,465
Additional paid-in capital	848,320	870,212	131,850
Retained earnings	800,597	437,755	66,327
Accumulated other comprehensive loss	(29,537)	(24,621)	(3,730)
Total shareholders' equity	2,810,451	2,474,417	374,912
Noncontrolling interests	92,445	84,064	12,737
Total equity	2,902,896	2,558,481	387,649

Total liabilities and equity	<u>4,136,593</u>	<u>3,233,437</u>	<u>489,914</u>
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See accompanying notes to the consolidated financial statements.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except share and per share data)

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Revenues:				
External parties	2,147,300	1,631,541	855,544	129,628
Related parties	6,573	1,371	—	—
Total revenues	2,153,873	1,632,912	855,544	129,628
Cost of goods sold	(1,287,096)	(1,381,595)	(904,328)	(137,020)
Gross profit (loss)	866,777	251,317	(48,784)	(7,392)
Operating expenses:				
Selling and distribution	(146,551)	(109,598)	(108,578)	(16,451)
General and administrative	(44,231)	(73,619)	(55,120)	(8,352)
Research and development	(29,242)	(36,404)	(18,943)	(2,870)
Amortization of other intangible assets	(11,727)	(4,733)	(4,433)	(672)
Impairment of goodwill	—	—	(112,814)	(17,093)
Impairment of assets held for sale	—	(5,957)	—	—
Impairment of other intangible assets	(26,235)	(13,600)	—	—
Operating income (loss)	608,791	7,406	(348,672)	(52,830)
Other income (expense):				
Interest income	24,405	18,850	21,978	3,330
Interest expense	(165,506)	(326,512)	(45,159)	(6,842)
Foreign currency exchange gain (loss), net	(5,142)	352	(3,815)	(578)
Gain (loss) on remeasurement of embedded derivatives	144,939	(87,935)	19,006	2,880
(Loss) gain on remeasurement of warrant liability	—	(7,219)	4,343	658
(Loss) gain on extinguishment of convertible debts	(10,634)	159,326	—	—
Impairment of investment at cost	—	(2,803)	—	—
Gain on disposal of subsidiaries	2,269	—	—	—
Other income (loss), net	(3,700)	178	(1,448)	(219)
Income (loss) before income tax expense	595,422	(238,357)	(353,767)	(53,601)
Income tax expense	(155,717)	(11,632)	(17,456)	(2,645)
Net income (loss)	439,705	(249,989)	(371,223)	(56,246)
Net (income) loss attributable to noncontrolling interests	(15,901)	(380)	8,381	1,270
Net income (loss) attributable to holders of ordinary shares	423,804	(250,369)	(362,842)	(54,976)
Earnings (loss) per ordinary share:				
Basic	<u>7.52</u>	<u>(5.21)</u>	<u>(6.85)</u>	<u>(1.04)</u>
Diluted	<u>6.99</u>	<u>(5.21)</u>	<u>(6.85)</u>	<u>(1.04)</u>

See accompanying notes to the consolidated financial statements.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Net income (loss)	439,705	(249,989)	(371,223)	(56,246)
Foreign currency translation adjustments	(7,771)	(126)	4,916	745
Comprehensive income (loss)	431,934	(250,115)	(366,307)	(55,501)
Comprehensive income attributable to noncontrolling interests	(15,901)	(380)	8,381	1,270
Comprehensive income (loss) attributable to holders of ordinary shares	416,033	(250,495)	(357,926)	(54,231)

See accompanying notes to the consolidated financial statements.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Cash flows from operating activities:				
Net income (loss)	439,705	(249,989)	(371,223)	(56,246)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	11,957	10,607	4,931	747
Amortization of land use rights	802	803	—	—
Amortization of other intangible assets	11,727	4,733	4,433	672
Impairment of goodwill	—	—	112,814	17,093
Impairment of assets held for sale	—	5,957	—	—
Impairment of other intangible assets	26,235	13,600	—	—
Impairment of investment at cost	—	2,803	—	—
Bad debt expense	682	12,938	8,491	1,287
Inventory write-downs	6,650	18,016	20,012	3,032
Inventory write-off	—	—	32,350	4,902
Foreign currency exchange (gain) loss, net	5,142	(352)	3,815	578
(Gain) loss on disposal of property, machinery and equipment	(15)	162	(117)	(18)
Accretion of discount on convertible notes	70,512	225,634	—	—
Amortization of deferred debt issuance costs	10,851	34,723	—	—
(Gain) loss on remeasurement of embedded derivatives	(144,939)	87,935	(19,006)	(2,880)
(Gain) loss on remeasurement of warrant liability	—	7,219	(4,343)	(658)
Loss (gain) on extinguishment of convertible debts	10,634	(159,326)	—	—
Accrued interest settled through the issuance of ordinary shares on the conversion of convertible notes	316	4,028	—	—
Gain on disposal of subsidiaries	(2,269)	—	—	—
Deferred income taxes	(6,550)	(10,782)	17,456	2,645
Share-based compensation	14,668	34,922	21,892	3,317
Changes in operating assets and liabilities:				
Accounts receivable	(53,844)	334,655	(133,192)	(20,181)
Bills receivable	(43,516)	43,516	—	—
Inventories	(15,527)	68,007	(15,185)	(2,301)
Prepayments to suppliers	(195,018)	189,820	95,248	14,432
Prepaid expenses and other current assets	(13,684)	(6,603)	2,324	352
Accounts payable	(50,844)	8,704	(21,014)	(3,184)
Prepayments from customers	37,966	(26,181)	(12,468)	(1,889)
Accrued liabilities	9,213	(15,424)	(15,412)	(2,335)
Other payables and current liabilities	(20,488)	706	145	22
Income taxes payable	(260)	(38,462)	—	—
Net cash provided by (used in) operating activities	110,106	602,369	(268,049)	(40,613)

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(amounts in thousands)

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Cash flows from investing activities:				
Purchase of property, machinery and equipment	(14,895)	(912)	(2,079)	(315)
Restricted cash related to new bank borrowings	(108,858)	(206,891)	(176,739)	(26,779)
Release of restricted cash upon repayment of bank borrowings	66,943	91,470	390,701	59,197
Net cash (outflow) inflow on disposal of subsidiaries	(1,162)	8,764	—	—
Proceeds from disposal of equity investment held at cost	—	—	5,000	758
Proceeds from disposal of assets held for sale	—	49,000	114,000	17,273
Proceeds from disposal of property, machinery and equipment	309	40	143	21
Net cash (used in) provided by investing activities	(57,663)	(58,529)	331,026	50,155
Cash flows from financing activities:				
Net proceeds from issuance of convertible notes	128,887	—	—	—
Redemption of convertible notes	—	(209,700)	—	—
Proceeds from short-term borrowings	1,650,123	1,418,588	1,318,422	199,761
Repayments of short-term borrowings	(1,643,314)	(1,517,830)	(1,757,130)	(266,232)
Proceeds from borrowings from Xing or from related parties on behalf of Xing	57,681	43,871	2,126	322
Repayments of borrowings from Xing or from related parties on behalf of Xing	(49,639)	(56,910)	—	—
Net cash provided by (used in) financing activities	143,738	(321,981)	(436,582)	(66,149)
Effect of foreign exchange rate changes	(19,015)	63	40	6
Net increase (decrease) in cash	177,166	221,922	(373,565)	(56,601)
Cash, beginning of year	2,729,982	2,907,148	3,129,070	474,102
Cash, end of year	2,907,148	3,129,070	2,755,505	417,501
Supplemental disclosure of cash flow information:				
Interest paid	77,622	71,672	40,673	6,163
Income tax paid	162,527	90,031	—	—
Warrant issuance costs in the form of share-based payment	2,500	—	—	—
Convertible note issuance costs in the form of share-based payment	31,451	—	—	—
Ordinary shares repurchased through the issuance of convertible notes	338,165	—	—	—
Ordinary shares issued on partial conversion of convertible notes	55,054	126,650	—	—

Additional supplemental cash flow information is set out in notes 3 and 6.

See accompanying notes to the consolidated financial statements.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(amounts in thousands, except share data)

	Ordinary shares		Additional paid-in capital RMB	Retained earnings RMB	Accumulated other comprehensive loss RMB	Total shareholders' equity RMB	Noncontrolling interests RMB	Total equity RMB
	Number of shares	Amount RMB						
Balance as of January 1, 2008	52,500,000	1,316,726	802,892	574,004	(23,080)	2,670,542	78,235	2,748,777
Net income	—	—	—	423,804	—	423,804	15,901	439,705
Foreign currency translation adjustments	—	—	—	—	(7,771)	(7,771)	—	(7,771)
Issuance of ordinary shares	2,076,397	85,860	—	—	—	85,860	—	85,860
Cancellation of ordinary shares	(6,966,666)	(338,165)	—	—	—	(338,165)	—	(338,165)
Issuance of stock purchase warrants to convertible note investors and external consultants	—	—	70,012	—	—	70,012	—	70,012
Warrant issuance costs	—	—	(4,162)	—	—	(4,162)	—	(4,162)
Share-based compensation	—	—	14,668	—	—	14,668	—	14,668
Noncontrolling interests derecognized upon disposal of a subsidiary	—	—	—	—	—	—	(2,071)	(2,071)
Balance as of December 31, 2008	47,609,731	1,064,421	883,410	997,808	(30,851)	2,914,788	92,065	3,006,853
Effect of change in accounting principle (Note 11)	—	—	(70,012)	53,158	1,440	(15,414)	—	(15,414)
Balance as of December 31, 2008 as adjusted	47,609,731	1,064,421	813,398	1,050,966	(29,411)	2,899,374	92,065	2,991,439
Net (loss) income	—	—	—	(250,369)	—	(250,369)	380	(249,989)
Foreign currency translation adjustments	—	—	—	—	(126)	(126)	—	(126)
Issuance of ordinary shares	5,075,170	126,650	—	—	—	126,650	—	126,650
Share-based compensation	—	—	34,922	—	—	34,922	—	34,922
Balance as of December 31,	52,684,901	1,191,071	848,320	800,597	(29,537)	2,810,451	92,445	2,902,896

2009								
Net loss	—	—	—	(362,842)	—	(362,842)	(8,381)	(371,223)
Foreign currency translation adjustments	—	—	—	—	4,916	4,916	—	4,916
Issuance of ordinary shares	331,391	—	—	—	—	—	—	—
Share-based compensation	—	—	21,892	—	—	21,892	—	21,892
Balance as of December 31, 2010	<u>53,016,292</u>	<u>1,191,071</u>	<u>870,212</u>	<u>437,755</u>	<u>(24,621)</u>	<u>2,474,417</u>	<u>84,064</u>	<u>2,558,481</u>
US\$		<u>180,465</u>	<u>131,850</u>	<u>66,327</u>	<u>(3,730)</u>	<u>374,912</u>	<u>12,737</u>	<u>387,649</u>

See accompanying notes to the consolidated financial statements.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

1 Principal activities, organization and significant concentrations and risks

(a) Principal activities

Qiao Xing Mobile Communication Co., Ltd. (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in the production and sale of mobile phones and accessories in the People’s Republic of China (the “PRC”).

(b) Organization

The Company was incorporated in the British Virgin Islands (the “BVI”) on January 31, 2002. The Company listed its ordinary shares on the New York Stock Exchange (the “NYSE”) under the symbol “QXM” on May 3, 2007.

As of December 31, 2010, the Company was 60.7% owned by Qiao Xing Universal Resources, Inc. (“Xing”), a company listed on the Nasdaq National Market.

Details of the Group’s subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Percentage of equity interest attributable to the Group as of December 31,	
		2009	2010
CEC Telecom Co., Ltd. (“CECT”)	PRC	96.6%	96.6%
Beijing VEVA Technology Co., Ltd.	PRC	96.6%	96.6%
Beijing Yilian Xuntong Technology Co., Ltd.	PRC	—	96.6%

(c) Significant concentrations and risks

The Group is subject to, among others, the following significant concentrations and risks:

Country

As substantially all of the Group’s operations are conducted in the PRC, the Group is subject to special considerations and significant risks not typically associated with companies operating in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Group’s results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, foreign currency exchange and remittance abroad, and rates and methods of taxation, among other things.

Revenue concentrations

Individual customers accounting for more than 10% of the Group’s revenue for the years ended December 31, 2008, 2009 and 2010, are as follows:

	Year ended December 31,		
	2008	2009	2010
Beijing Jiasheng Ruitong Electronics Co., Ltd.	12%	18%	26%
Beijing Jiusheng Aoxiang Technology Co., Ltd.	—	15%	20%
Shenzhen Siecom Communication Technology Development Co., Ltd.	—	20%	17%
Beijing Ousa Technology Co., Ltd.	—	—	15%
Beijing U-life International Technology Co., Ltd.	53%	17%	—
Shenzhen Laidi Technical Co., Ltd.	—	16%	—
Total	65%	86%	78%

As of December 31, 2009 and 2010, the Group’s five largest accounts receivable accounted for approximately 82% and 68%,

respectively, of the Group's total accounts receivable.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

Concentrations of cash balances held at financial institutions

As of December 31, 2009 and 2010, cash of RMB3,118,231 and RMB2,750,481 (US\$416,740), respectively, was held in uninsured accounts at major financial institutions located in the PRC, and cash of RMB10,839 and RMB5,024 (US\$761), respectively, was held in uninsured accounts at major financial institutions located in the Hong Kong Special Administrative Region (the “HK SAR”). Further, as of December 31, 2009 and 2010, the Company’s cash balance included U.S. dollar denominated bank deposits of US\$246 and US\$247 (equivalent to RMB1,678 and RMB1,633), respectively, in uninsured accounts at major institutions located in the PRC, and US\$1,558 and US\$692 (equivalent to RMB10,638 and RMB4,570), respectively, in uninsured accounts at major financial institutions located in the HK SAR. Management believes that these major financial institutions are of high credit quality.

Technology

The Group is developing products which incorporate complex and evolving technologies that require substantial expenditures and resources. These new products may fail to be accepted at the rates or levels the Group anticipates and the Group may fail to realize the expected benefits from its investments in these new technologies. Further, the Group may experience greater variability in its operating results than in the past, particularly depending on the general economic conditions and the pace of development and acceptance of new technologies. Changes in the communication industry are expected to increase competition and change the competitive landscape and may adversely affect the Group’s operating results.

Suppliers

The Group purchases materials and components from various suppliers in the PRC. The Group believes that there are a number of suppliers in the PRC with the ability to consistently supply materials and components that meet the Group’s quality standards and requirements. In the event that a major supplier ceases to sell to the Group, the Group believes that it could shift to other suppliers without incurring undue costs or revenue loss.

2 Summary of significant accounting policies

(a) Basis of presentation

The Group’s consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Prior to November 30, 2006, the Company was 80% owned by Xing. The Company became a wholly owned subsidiary of Xing on November 30, 2006 when Xing acquired the remaining 20% equity interest in the Company from Galbo Enterprise Limited (“Galbo” (Xing’s interest in the Company was subsequently diluted and as of December 31, 2010, the Company was 60.7% owned by Xing)). Xing’s acquisition of the 20% minority interest in the Company on November 30, 2006 was accounted for by Xing using the purchase method. Accordingly, the purchase accounting adjustments as a result of Xing’s acquisition of the 20% minority interest in the Company have been pushed-down and reflected in the accompanying financial statements.

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its majority-owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

(c) Cash, restricted cash and related party cash management arrangement

Cash consists of cash on hand and interest-bearing deposits placed with banks.

Cash that is restricted as to withdrawal for use or pledged as security is disclosed separately on the face of the consolidated balance sheet, and is not included in cash in the consolidated statements of cash flows. Restricted cash of RMB251,720 and RMB37,758 (US\$5,721) as of December 31, 2009 and 2010, respectively, represents pledged deposits for securing short-term bank borrowings.

The Group participates in a cash management arrangement at the direction and discretion of Xing. Consequently, the Group periodically both transfers cash to and receives cash from certain related parties. These cash flows are unrelated to the production and delivery of the Group’s products and services and are not derived from transactions or other events that enter into the

determination of the Group's net income (loss). For purposes of the consolidated statements of cash flows, the cash inflows and outflows under this related party financing arrangement are presented under "cash flows from financing activities".

(d) Accounts and bills receivables

Accounts receivable are recorded at invoiced amount net of deductions for trade discounts. The Group maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Group determines the allowance for doubtful accounts based on the age of the accounts receivable balance, the customer's payment history and its current credit-worthiness and current economic trends. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure related to its customers.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

To reduce the Group's credit risk, the Group has required certain customers to purchase the Group's products using bills receivable. Bills receivable represents interest-free short-term notes receivable issued by a financial institution that entitles the Group to receive the full face amount from the financial institution at a stated maturity date, which is within one year from the date of issuance.

In certain circumstances, the Group has sold, with recourse, bills receivables to banks. The recourse obligation represents the amount the Group would be obligated to repay to the extent that the issuing financial institution does not make payment upon maturity. Because the discounted bills receivables have not been legally isolated from the Group, the discounted bills receivables sold with recourse have been accounted for as short-term secured borrowings until the bills receivable are paid. Upon payment of bills receivable, the discounted bills receivables and related short-term secured borrowings are derecognized. Historically, the Group has experienced no losses on bills receivable.

(e) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. Costs of finished goods are composed of direct materials, direct labor and an attributable portion of manufacturing overhead based on normal operating capacity. Adjustments are recorded to write-down damaged, obsolete and slow-moving items to their estimated net residual value based on the ageing of the inventories, current and expected future market trends and conditions, and the physical condition of the inventory.

(f) Prepayments to suppliers

Advance payments for purchases of raw materials are included in "prepayments to suppliers" and represent cash deposits paid to vendors for future purchases. The Group is required to make advance payments for certain new suppliers. Advanced payments are unsecured, non-interest bearing and expected to be utilized within one year. The outstanding balance of "prepayments to suppliers" is reduced and reclassified to "inventories" when inventory is received and passes quality inspection based on the terms of the purchase order.

(g) Property, machinery and equipment

Property, machinery and equipment are stated at cost less accumulated depreciation and impairment. Property, machinery and equipment acquired in a purchase business combination and upon acquisitions of minority interest are initially recorded based on a purchase price allocation. In addition, as a result of the application of push-down accounting (Note 2(a)), the Group's property, machinery and equipment have been adjusted to a new cost basis, which reflects Xing's original 80% interest at depreciated cost and Xing's 20% acquired interest at fair value as of November 30, 2006.

Major expenditures for betterments and renewals are capitalized. All ordinary repair and maintenance costs are expensed as incurred. Depreciation on property, machinery and equipment is provided using the straight-line method (after taking into account their respective estimated residual values) over the following estimated useful lives:

Buildings and improvements	5 – 30 years
Machinery and equipment	5 – 12 years
Furniture and office equipment	5 – 10 years
Motor vehicles	5 – 8 years

Depreciation of property, machinery and equipment attributable to manufacturing activities is capitalized as part of inventory and expensed to cost of goods sold when the inventory is sold. Depreciation related to abnormal amounts from idle capacity is charged to cost of goods sold in the period it becomes idled. When items are retired or otherwise disposed of, income is charged or credited for the difference between the net book value and proceeds received thereon. Assets to be disposed of are separately presented on the consolidated balance sheet and reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated.

(h) Land use rights

Land use rights represent the exclusive right to occupy and use a piece of land in the PRC during the contractual period of the rights. Land use rights are carried at cost, subject to adjustments resulting from the effects of purchase accounting and push-down

accounting, and are charged to expense on a straight-line basis over 50 years, the contractual period of the rights.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

(i) Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. Goodwill is not amortized, but is instead tested for impairment at least annually (See note 8).

Acquired intangible assets are recognized if it satisfies either the “contractual-legal” or “separability” criterion specified under U.S. GAAP. Such intangible assets are initially measured and recorded at fair value. As a result of the application of push-down accounting, other intangible assets have been adjusted to a new cost basis, which reflects Xing’s original 80% interest at amortized cost and the 20% acquired interest at fair value as of November 30, 2006.

Intangible assets with determinable useful lives are amortized as follows:

Customer relationships	3 – 5 years
Completed technology	1.8 – 5 years
Core technology	4 – 5 years
Backlog	4 – 5 months
Licenses	5 years

Management has determined that the Group’s “CECT” brand name held by its subsidiary, CECT, does not have a determinable useful life. Consequently, the carrying amount of this brand name is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. Such impairment test consists of a comparison of the fair value of the brand name with its carrying amount, and an impairment loss is recognized if and when the carrying amount of the brand name exceeds its fair value. As of December 31, 2009, full impairment provision has been made on the Group’s “CECT” brand name. As indicated by Note 8 as of December 31, 2010, full impairment provision has been made on goodwill.

(j) Impairment of long-lived assets

Long-lived assets with determinable useful lives, such as property, machinery and equipment and amortizable intangible assets, are tested for impairment if events or changes in circumstances indicate that the asset might be impaired. Recoverability of such assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Goodwill and the CECT brand name which are not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss would be recognized on the CECT brand name to the extent that the carrying amount of the CECT brand name exceeds its fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. In the first step, the Company determines the fair value of its reporting unit and compares it to its carrying amount, including goodwill. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit’s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Management has determined that CECT is the reporting unit for testing goodwill impairment. The fair value of the CECT is determined based on the market approach, under which the fair value is estimated based on market multiples of earnings for comparable companies.

(k) Revenue recognition

The Group derives revenues principally from the sales of mobile phones and accessories in the PRC, and to a lesser extent the rendering of technical, processing and other related services.

Sales of mobile phones and accessories

Sales represent the invoiced amount, net of discounts, returns, volume rebates and price guarantees granted to customers. The Group recognizes revenue when products are received by the customers at the location designated by the customer and the

customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the selling price is fixed or determinable.

The Group recognizes a liability for price guarantees, which generally cover a period of between three to four months, based on management's estimates of future price reductions and the level of unsold inventories held by customers at the dates of expected price adjustments. Price guarantees reported as a reduction of revenues amounted to RMB91, RMB118 and nil for the years ended December 31, 2008, 2009 and 2010, respectively.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

In the PRC, value-added-tax (“VAT”) at a rate of 17% of invoiced amount is collected on behalf of the PRC tax authorities. Revenue is recorded net of VAT. VAT collected from customers is offset against VAT paid for purchases and is recorded as a liability on the consolidated balance sheet until paid.

Provision of services

Revenues from the provision of technical, processing and other related services are recognized in the period when performance of the service is completed as agreed to in each written service agreement, the fee is fixed or determinable, and collection of relevant receivable is reasonably assured.

(l) *Product warranties*

The Group provides a warranty to customers that its products will meet the functionality standards agreed to in each sales arrangement. The Group provides for the estimated warranty costs under these guarantees based upon historical experience and management’s estimate of the level of future claims, and accrues for specific items at the time their existence is known and the amounts are estimable. Provisions of product warranty costs, which are charged to cost of goods sold, are analyzed as follows:

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Balance at beginning of year	8,097	5,029	1,923	291
Provision	7,485	2,830	2,713	411
Utilization	(10,553)	(5,936)	(3,100)	(469)
Balance at end of year	5,029	1,923	1,536	233

(m) *Research and development costs, advertising costs, and shipping and handling costs*

Research and development costs are expensed as incurred.

Advertising costs are charged to selling and distribution expenses when incurred. Advertising costs amounted to RMB137,166, RMB92,212 and RMB99,089 (US\$15,013) for the years ended December 31, 2008, 2009 and 2010, respectively.

The costs of shipping and distributing products are included in cost of sales.

(n) *Retirement and other postretirement benefits*

Pursuant to relevant PRC regulations, the Group’s subsidiaries are required to make contributions to various defined contribution plans organized by the PRC government. The contributions are made for each qualifying PRC employee at 20% of a standard salary base as determined by the PRC governmental authority. Contributions to the defined contribution plans are charged to expense as the service is provided. For the years ended December 31, 2008, 2009 and 2010, contributions to the defined contribution plans were RMB2,228, RMB3,165 and RMB2,805 (US\$425), respectively. The Group has no other obligation for the payment of employee benefits associated with these plans beyond the contributions described above.

(o) *Share-based payments*

Compensation cost related to share options or similar equity instruments are measured at fair value as of the date of the award and recognized over the requisite service period, which is generally the same as the vesting period. When no future services are required to be performed by the employee in exchange for the reward, and if such award does not contain a performance or market condition, the cost of the award (as measured based on the grant-date fair value) is expensed on the grant date.

(p) *Income taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are

expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates or laws is recognized in the statement of operations in the period that the change in tax rates or tax laws is enacted. Interest and penalties related to unrecognized tax benefits, if and when required, are classified as part of income tax expense in the statement of operations.

(q) Foreign currency transactions

The reporting currency of the Group is Renminbi (“RMB”).

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

The Company's functional currency is the United States dollars ("U.S. dollar" or "US\$"). The functional currency of all other companies within the Group is the RMB. Monetary assets and liabilities which are denominated in currencies other than RMB are translated into RMB using the applicable exchange rates quoted by the People's Bank of China (the "PBOC") at each balance sheet date. Transactions of the Company and of all other companies within the Group denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the PBOC prevailing at the dates of transactions. Foreign exchange gains or losses resulting from the settlement of foreign currency transactions and from the translation at each period of assets and liabilities denominated in foreign currencies are recorded as foreign currency exchange gain, net in the consolidated statements of operations.

Assets and liabilities of the Company are translated into RMB using the exchange rate as of the balance sheet date. Income and expenses are translated at the average exchange rate prevailing during the reporting period. The gains and losses resulting from the translation of the financial statements of the Company are recorded as accumulated other comprehensive loss, a separate component within shareholders' equity.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place either through the PBOC or other institutions authorized to buy and sell foreign currency. The exchange rate adopted for foreign exchange transactions are the rates of exchange quoted by the PBOC, which are determined largely by supply and demand.

For the convenience of readers, certain 2010 RMB amounts included in the accompanying consolidated financial statements have been translated into U.S. dollars at the rate of US\$1.00 = RMB6.6000, being the noon buy rate for U.S. dollars in effect on December 30, 2010 in the City of New York for cable transfer in RMB per U.S. dollar as certified for custom purposes by the Federal Reserve Bank. No representation is made that RMB amounts could have been, or could be, converted into U.S. dollars at that rate or at any other certain rate on December 31, 2010, or at any other date.

(r) Earnings (loss) per share

Basic earnings (loss) per share is computed using the "two-class" method by dividing net income (loss) allocated to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of ordinary and dilutive ordinary shares equivalents outstanding during the year. Potential dilutive securities are not included in the calculation of diluted earnings (loss) per share if the impact is anti-dilutive.

(s) Use of estimates

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions in the Group's consolidated financial statements include determining the fair values of assets and liabilities acquired in business combinations, the estimated useful lives of property, machinery and equipment and intangible assets with determinable lives, the recoverability of the carrying values of property, machinery and equipment, goodwill, other intangible assets, receivables, inventories, deferred income tax assets and other assets, the fair value of share-based payments, the fair values of conversion options and other derivatives embedded in convertible notes, the fair value of ordinary share warrants granted, and the allowances for warranty obligations and price guarantees. Actual result could differ from those estimates.

(t) Segment information

The Group uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Group's operating segments. Management, including the chief operating decision maker, reviews operating results solely by monthly revenue and operating results of CECT, the operating subsidiary in the PRC. As such, management has determined that CECT is the Group's only operating segment. As the Group's operations and customers are principally all located in the PRC, no geographic information has been presented.

(u) Contingencies

In the normal course of business, the Group is subject to contingencies, including legal proceedings and claims arising out of the

business that relate to a wide range of matters. The Group recognizes a liability for such contingency if it determines it is probable that a loss has occurred and a reasonable estimate of the loss can be made. The Group may consider many factors in making these assessments including past history and the specifics of each matter. As the Group has not become aware of any claims since operations commenced, the Group has not recognized a liability for any claims.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

(v) *Recently issued accounting standards*

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements” (“ASU 2010-13”). ASU 2010-06 amends Accounting Standards Codification (“ASC”) 820 to add new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The guidance in ASU 2010-06 is effective for the first reporting period beginning after December 15, 2009, the adoption of which did not have a material impact on the Group’s financial statements, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. The adoption of the Level 3 guidance of ASU 2010-06 is not expected to have a material impact on the Group’s consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-13, “Compensation — Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades” (“ASU 2010-13”). The objective of ASU 2010-13 is to address the classification of an employee share-based payment award with an exercise price dominated in the currency of a market in which the underlying equity security trades. ASC 718 provides guidance on the classification of a share-based payment award as either equity or liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 provide amendments to ASC 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. Then amendments in this standard are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 31, 2010. The adoption of ASU 2010-13 is not expected to have a material impact on the Group’s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, “Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts” (“ASU 2010-28”). The objective of ASU 2010-28 is to address questions about entities with reporting units with zero or negative carrying amounts because some entities concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. The amendments in this standard modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 is not expected to have a material impact on the Group’s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, “Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations” (“ASU 2010-29”). ASU 2010-29 specifies that if a public company presents comparative financial statements, the entity should only disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The adoption of ASU 2010-29 is not expected to have a material impact on the Group’s consolidated financial statements.

3 Disposals

The Group disposed of its interests in two subsidiaries, Beijing CECT Yitong Technology Co., Ltd. (“BCYT”) and Huizhou CEC Telecom Co., Ltd. (“HCECT”), during the year ended December 31, 2008. The condensed historical balances of the subsidiaries’ assets and liabilities that were disposed of consisted of:

	BCYT	HCECT	Total
	RMB	RMB	RMB
Cash	924	238	1,162
Other current assets	20,866	14,616	35,482

Property, machinery and equipment	—	10,876	10,876
Current liabilities	—	(5,808)	(5,808)
Noncontrolling interests	(2,071)	—	(2,071)
Net assets disposed	<u>19,719</u>	<u>19,922</u>	<u>39,641</u>

[Table of Contents](#)

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

The gain on disposal of subsidiaries reflected in the consolidated statement of operations for the year ended December 31, 2008 is calculated as follows:

	<u>BCYT</u> <u>RMB</u>	<u>HCECT</u> <u>RMB</u>	<u>Total</u> <u>RMB</u>
Consideration	20,000	21,910	41,910
Net assets disposed	<u>(19,719)</u>	<u>(19,922)</u>	<u>(39,641)</u>
Gain on disposal	<u>281</u>	<u>1,988</u>	<u>2,269</u>

The net cash outflow in respect of the disposal of subsidiaries during the year ended December 31, 2008 is as follows:

	<u>BCYT</u> <u>RMB</u>	<u>HCECT</u> <u>RMB</u>	<u>Total</u> <u>RMB</u>
Consideration	20,000	21,910	41,910
Cash disposed	(924)	(238)	(1,162)
Consideration paid through set-off of payables	(20,000)	(13,146)	(33,146)
Unpaid consideration as at December 31, 2008	<u>—</u>	<u>(8,764)</u>	<u>(8,764)</u>
Net cash outflow	<u>(924)</u>	<u>(238)</u>	<u>(1,162)</u>

The unpaid consideration of RMB8,764 relating to the disposal of HCECT that was outstanding as of December 31, 2008 was fully repaid during the year ended December 31, 2009.

4 Accounts receivable, net

Accounts receivable, net consists of the following:

	<u>December 31,</u>		
	<u>2009</u>	<u>2010</u>	
	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>
Accounts receivable	133,130	266,322	40,352
Less: Allowance for doubtful accounts	<u>(18,441)</u>	<u>(26,932)</u>	<u>(4,081)</u>
Accounts receivable, net	<u>114,689</u>	<u>239,390</u>	<u>36,271</u>

The following table presents the movement of the allowance for doubtful accounts:

	<u>Year ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	
	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>
Balance at beginning of year	6,043	18,441	2,794
Bad debt expense	12,938	8,601	1,303
Bad debt recovery	(540)	(110)	(16)
Bad debt write-off	<u>—</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>18,441</u>	<u>26,932</u>	<u>4,081</u>

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

5 Inventories

Inventories by category consist of the following:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Raw materials	77,296	43,903	6,652
Finished goods	19,850	16,066	2,434
Total inventories	97,146	59,969	9,086

Inventories write-downs of RMB6,650, RMB18,016 and RMB20,012 (US\$3,032) were charged to cost of goods sold during the years ended December 31, 2008, 2009 and 2010, respectively.

6 Assets held for sale

In November 2009, the Group entered into an agreement for the sale of a property and the associated land use rights to a third party for a total consideration of RMB163,000. A deposit of RMB49,000 was received from the purchaser, the amount of which has been included in other payables and current liabilities as of December 31, 2009. The sale transaction was subsequently completed and the balance consideration of RMB114,000 was received in the second quarter of 2010. As of December 31, 2009, the land and property have been reclassified from non-current assets to current assets held for sale. In addition, an impairment charge of RMB5,957 was made during the year ended December 31, 2009 to write down the value of the assets to their fair value which was estimated based on the expected net sales proceeds.

7 Property, machinery and equipment, net

Property, machinery and equipment consist of the following:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Buildings and improvements	554	554	84
Machinery and equipment	32,378	32,719	4,957
Furniture and office equipment	2,916	4,593	696
Motor vehicles	3,483	2,615	396
Total property, machinery, and equipment	39,331	40,481	6,133
Less: accumulated depreciation	(15,623)	(19,651)	(2,977)
Property, machinery, and equipment, net	23,708	20,830	3,156

All the Group's property, machinery and equipment are located in the PRC.

Depreciation charge was allocated to the following expenses items:

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Cost of goods sold	10,134	8,512	3,531	535
Selling and distribution expenses	4	6	55	8
General and administrative expenses	1,819	2,089	1,345	204
Total	11,957	10,607	4,931	747

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

8 Goodwill

The impairment tests conducted by the Group on goodwill for the years ended December 31, 2008 and 2009 did not result in any impairment charges. In 2010, the impairment test conducted by the Group resulted in an impairment charge of RMB112,814 (US\$17,093), which reflects the reduction in the estimated fair value of CECT that resulted mainly from the intensely competitive and difficult operating environment in the PRC mobile handset industry.

9 Other intangible assets, net

Intangible assets, which arose from the acquisition of the Group's initial 65% equity interest in CECT on February 8, 2003, and from the push-down accounting adjustments on November 30, 2006 upon Xing's acquisition of an additional 20% equity interest in the Company (as discussed in Note 2(a)), comprise the following components:

	Gross carrying amount	December 31, 2009		
		Accumulated amortization	Accumulated impairment	Other intangibles assets, net
	RMB	RMB	RMB	RMB
"CECT" brand	39,835	—	(39,835)	—
Customer relationships	5,418	(5,418)	—	—
Completed technology	16,950	(16,950)	—	—
Core technology	24,193	(19,760)	—	4,433
Backlog	9,175	(9,175)	—	—
Licenses	1,725	(1,725)	—	—
Total	97,296	(53,028)	(39,835)	4,433

	December 31, 2010				
	Gross carrying amount	Accumulated amortization	Accumulated impairment	Other intangible assets, net	
	RMB	RMB	RMB	RMB	US\$
"CECT" brand	39,835	—	(39,835)	—	—
Customer relationships	5,418	(5,418)	—	—	—
Completed technology	16,950	(16,950)	—	—	—
Core technology	24,193	(24,193)	—	—	—
Backlog	9,175	(9,175)	—	—	—
Licenses	1,725	(1,725)	—	—	—
Total	97,296	(57,461)	(39,835)	—	—

Due to the Group's strategic shift to focus more on its high-end VEVA-branded handsets, the Group recorded an impairment charge of RMB26,235 on its "CECT" brand name in 2008 and an impairment charge of RMB13,600 (US\$1,992) in 2009.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

10 Short-term borrowings

Short-term borrowings consist of the following:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Bills payable	191,200	—	—
Bank loans	693,508	446,000	67,576
Total short-term borrowings	884,708	446,000	67,576

Bills payable represents bank borrowings with payment terms of not more than 180 days. These are non-interest bearing unless they become trust receipt loans which then bear interest at the prevailing bank lending rates.

During each of the periods presented, the Group entered into various loan agreements with commercial banks in the PRC at terms ranging from three months to one year. The weighted average interest rate on bank loans outstanding as of December 31, 2009 and 2010 was 6.0% and 6.1%, respectively. The principal amounts of these short-term loans are repayable at the end of the loan period, while the related interest expense of these short-term loans is payable on a monthly or quarterly basis.

Short-term borrowings of RMB135,008 and RMB106,000 (US\$16,061) as of December 31, 2009 and 2010, respectively are subject to certain financial covenants relating to certain of the Group's and Xing's tangible net worth, borrowing to tangible net worth plus minority interest, current ratio, and interest to earnings before interest and taxes ratios. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group was in compliance with these financial covenants as of December 31, 2009 and 2010.

Short-term borrowings are secured by the following:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Pledged by bank deposits	251,720	37,758	5,721
Guarantees provided by:			
- Qiao Xing Group Limited ("QXGL")	50,000	50,000	7,576
- QXGL and directors of the Company	290,000	260,000	39,394
- Xing	285,008	106,000	16,061
- Directors of the Company	68,500	30,000	4,545

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

11 Convertible notes

Pursuant to a Securities Purchase Agreement and Registration Rights Agreement signed on May 15, 2008, the Company issued to two existing shareholders of the Company (the “Investors”) US\$70,000 of senior convertible notes (the “Notes”) that came with warrants to purchase 1,648,721 ordinary shares of the Company (the “Investor Warrants”). The consideration paid on May 15, 2008 by the Investors for the Notes comprised a combination of 6,966,666 ordinary shares of the Company that were owned by the Investors, valued at approximately US\$48,349 based on the closing market price of the Company’s ordinary shares on May 14, 2008, and cash of US\$21,651. All ordinary shares submitted by the Investors in exchange for the Notes were cancelled. In addition, the Company issued warrants to its placement agent to purchase up to 942,127 ordinary shares of the Company at terms identical to the Investor Warrants (the “Agent Warrants” and collectively with the Investor Warrants, the “Warrants”).

The material terms and conditions of the Notes are summarized as follows:

- the Notes are unsecured and mature on May 15, 2011;
- the Notes bear interest at a rate of 4.0% per annum, payable in cash in arrears on a calendar semi-annual basis beginning June 30, 2008;
- the Notes are convertible at the holders’ option into ordinary shares of the Company at an initial conversion price of \$7.43 per share. The conversion price is subject to reset if the average of the daily volume weighted average price (“VWAP”) of the Company’s ordinary shares for the five consecutive trading days ending on each three-month anniversary of the issuance date of the Notes until maturity (each a “Reset Date”) is less than \$6.76. In that event, the conversion price is reset to a price equal to the greater of US\$4.05 or 92.5% of the arithmetic average of the daily VWAP of the Company’s ordinary shares for the five trading days ending on the applicable Reset Date. The conversion price of the Notes was reset to US\$4.05 on November 15, 2008;
- the Notes cannot be converted if, after giving effect to such conversion, the holders of the Notes (together with their affiliates) would beneficially own in excess of 9.99% of the Company’s ordinary shares outstanding immediately after giving effect to the conversion;
- the Notes require an automatic re-pricing of the conversion price if the Company make certain sales of its ordinary shares or ordinary share equivalents in a capital-raising transaction at a price below the conversion price;
- the holders of the Notes have the right to require the Company to redeem the Notes at any time on or after the 18 month anniversary of the issuance date of the Notes in an amount equal to the sum of (a) the outstanding principal of the Notes, and (b) the accrued and unpaid interest thereon. Accordingly, the Notes were classified as current liabilities on the consolidated balance sheet as of December 31, 2009 and 2010;
- in the event of a default, change of control and certain other fundamental transactions, the holders of the Notes have the right to require the Company to redeem all or any portion of the Notes at a price equal to the greater of (i) the amount to be redeemed multiplied by a redemption premium of 125% and (ii) the amount to be redeemed multiplied by the quotient determined by dividing the closing bid price of the Company’s ordinary shares on the date immediately preceding such event by the conversion price of the Notes;
- all principal, interest, late charges and other amounts due under the Notes that are payable in cash shall be settled in U.S. dollars in an amount equal to the applicable U.S. dollar cash payment due under the terms of the Notes multiplied by 6.99 and divided by the exchange rate of one U.S. dollar to RMB on the date such payment is due; and
- the Company is required under the terms of the Registration Rights Agreement to file with the Securities and Exchange Commission (“SEC”) a registration statement to register the ordinary shares issuable upon the conversion of the Notes and the exercise of the Warrants to permit the resale of such ordinary shares to the public. The registration statement was filed by the Company on June 27, 2008 and was declared effective by the SEC on July 11, 2008.

The material terms and conditions of the Warrants are summarized as follows:

- the initial exercise price of each Warrant is \$8.91 per share, subject to adjustments as provided for in the Warrant;
- the Warrants are exercisable at any time during a period of five years from May 15, 2008;

- the Warrants contain a “cashless exercise” feature if the registration statement covering the shares underlying the Warrants is not available for the resale upon the exercise of the Warrants;

[Table of Contents](#)

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

- the Warrants contain certain limitations on the exercise thereof in the event that the holder would beneficially own in excess of 9.99% of the Company's ordinary shares outstanding immediately after giving effect to such exercise; and
- the Warrants require an automatic re-pricing of the exercise price if the Company makes certain sales of its ordinary shares or ordinary share equivalents in a capital-raising transaction at a price below the exercise price of the Warrants.

The Notes included on the consolidated balance sheet as of December 31, 2009 and 2010 are analyzed as follows:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Gross proceeds	489,601	489,601	74,182
Discount on notes:			
- Equity-classified Investor Warrants	(36,062)	(36,062)	(5,464)
- Liability-classified embedded derivatives	(304,037)	(304,037)	(46,066)
Value of debt component at date of issue	149,502	149,502	22,652
Foreign currency realignment	7,261	7,261	1,100
Accretion of discount	296,146	296,146	44,871
Conversion of Notes into ordinary shares	(131,047)	(131,047)	(19,856)
Redemption of Notes	(209,700)	(209,700)	(31,773)
Net value at end of year	112,162	112,162	16,994

The terms and features of the Investor Warrants were evaluated to determine whether they were to be classified as equity or liability and the Company concluded that all indicators for equity classification were present at the date of issuance.

The gross proceeds from the issuance of the Notes were allocated to the Investors Warrants and the Notes on a relative fair value basis. The fair value of the Investors Warrants applied for the purposes of the aforementioned allocation was estimated using a multi-period binomial option pricing model on the grant date of the warrants and amounted to approximately RMB59,415. As a result of the allocation, approximately RMB36,062 of the gross proceeds from the issuance of the Notes was allocated to the value of the Investor Warrants, which was recorded as a discount to the face value of the Notes and credited to additional paid-in capital.

The Notes are a form of hybrid instrument that comes with embedded derivatives, including the right to convert the Notes into ordinary shares of the Company by the note holders, a put option conditional upon certain events of default and a put option conditional upon a change of control. The embedded derivatives were removed from the debt host and accounted for separately as derivative instruments. The embedded derivatives were determined to be classified as liabilities on the balance sheet. Subsequent to initial recognition, the liability-classified embedded derivatives are marked-to-market at the end of each reporting period with the resulting gain or loss recognized in the consolidated statement of operations. The valuation of the embedded derivatives at each period-end is derived from various valuation methods which uses significant unobservable inputs (Level 3), including Monte Carlo Simulation and Backward Dynamic Programming.

The embedded derivative liability included on the consolidated balance sheet as of December 31, 2009 and 2010 is analyzed as follows:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Value on initial recognition	304,037	304,037	46,066
Foreign currency realignment	(6,450)	(7,309)	(1,107)
Cumulative gain on remeasurement	(57,004)	(76,010)	(11,517)
Settled on conversion of Notes	(87,575)	(87,575)	(13,269)
Settled on redemption of Notes	(113,030)	(113,030)	(17,126)
Net value at end of year	39,978	20,113	3,047

Loss (gain) on remeasurement for the period include in earnings attributable to the change in unrealized loss (gain) of liabilities still outstanding at end of year	<u>1,129</u>	<u>(19,006)</u>	<u>(2,880)</u>
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[Table of Contents](#)

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

The discount arising from the Investors Warrants and the embedded derivatives is accreted to interest expense to the first put date of the Notes using the effective interest method. The discount was fully accreted as of December 31, 2009.

Costs associated with the issuance of the Notes, which have been classified as deferred debt issuance costs on the consolidated balance sheet, are analyzed as follows:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Amount attributed to Agent Warrants	31,451	31,451	4,765
Other cash costs	20,887	20,887	3,165
Total deferred debt issuance costs on initial recognition	52,338	52,338	7,930
Foreign currency realignment	(1,164)	(1,164)	(177)
Amortization	(45,574)	(45,574)	(6,905)
Written-off on conversion of Notes	(5,600)	(5,600)	(848)
Net value at end of year	—	—	—

The fair value of the Agent Warrants on the grant date, which was estimated using a multi-period binomial option pricing model, amounted to approximately RMB33,951. Of this amount, RMB31,451 was debited to deferred debt issuance costs as cost associated with the issuance of the Notes and the balance of RMB2,500 was debited to additional paid-in capital as cost associated with the issuance of the Investor Warrants.

The deferred debt issuance costs were amortized to expense to the first put date of the Notes using the effective interest method.

Effective January 1, 2009, the Company adopted the guidance provided in FASB ASC 815-40-15-5 through 815-40-15-8 (formerly EITF 07-5, “Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock”). ASC 815-40-15-5 through 815-40-15-8 applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined in ASC paragraph 815-10-15-83 (formerly SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”) and to any freestanding financial instruments that are potentially settled in an entity’s own common stock.

As a result of adopting ASC 815-40-15 through 815-40-15-8, the Investors Warrants and the Agent Warrants outstanding at January 1, 2009, which were previously treated as equity pursuant to the scope exception in ASC 815-10-15-74 (formerly paragraph 11(a) of SFAS No. 133), were no longer afforded equity treatment. As such, as of January 1, 2009, the Company reclassified the fair value of the Warrants from equity to liability as if the Warrants had been treated as a derivative liability since their date of issue. On January 1, 2009, the Company recognized a cumulative-effect adjustment of RMB15,414, whereby RMB53,158 was reclassified to beginning retained earnings, RMB1,440 to foreign currency translation adjustments, and RMB70,012 from additional paid-in capital, to recognize the fair value of the Warrants as warrant liability on such date.

The warrant liability included on the consolidated balance sheet as of December 31, 2009 and 2010 is analyzed as follows:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Value on initial recognition	15,414	15,414	2,335
Foreign currency realignment	4	(640)	(97)
Cumulative loss on remeasurement	7,219	2,876	436
Net value at end of year	22,637	17,650	2,674
Loss (gain) on remeasurement for the period included in earnings attributable to the change in unrealized loss (gain) of liabilities still outstanding at end of year	7,219	(4,343)	(658)

Changes in the fair value of the warrant liability subsequent to January 1, 2009 are recognized in the consolidated statement of operations.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

The fair value of the Warrants on the date of grant was US\$5.15 per warrant, which was estimated by management using a multi-period binomial option pricing model based on the following assumptions:

Stock price of underlying ordinary share on grant date	US\$7.45
Risk-free interest rate	4.3%
Expected dividend yield	0%
Expected term	5 years
Expected stock price volatility	65.38%

The fair value of the Warrants as of January 1, 2009, December 31, 2009 and December 31, 2010 was US\$0.87 per warrant, US\$1.28 per warrant, and US\$1.03 per warrant, respectively, which was estimated by management using the Black-Scholes option pricing model based on the following assumptions (Level 2):

	January 1, 2009	December 31, 2009	December 31, 2010
Stock price of underlying ordinary share	US\$2.54	US\$3.66	US\$4.06
Risk-free interest rate	1.54%	1.88%	0.74%
Expected dividend yield	0%	0%	0%
Expected term	4.37 years	3.37 years	2.37 years
Expected stock price volatility	79.21%	80.55%	80.27%

In 2008, US\$8,251 of the principal amount of the Notes and accrued interest thereon of US\$46 were converted into 1,511,397 ordinary shares of the Company at a conversion price of US\$5.49 per share. In 2009, US\$30,706 of the principal amount of the Notes were redeemed and US\$16,073 of the principal amount of the Notes plus accrued interest thereon of US\$590 were converted into 4,114,286 ordinary shares at a conversion price of US\$4.05 per share. The extinguishment of the convertible debts that arose from the aforementioned conversions and redemption resulted in a loss of RMB10,634 for the year ended December 31, 2008 and a gain of RMB159,326 for the year ended December 31, 2009, computed as follows:

	December 31,		
	2008	2009	
	RMB	RMB	US\$
Fair value of ordinary shares issued on conversion	55,054	126,650	18,555
Cash consideration paid on redemption	—	209,700	30,721
	55,054	336,350	49,276
(Less) add: Carrying amount of:			
- Notes	(21,287)	(319,460)	(46,801)
- Accrued interest	(316)	(4,028)	(590)
- Embedded derivatives	(28,417)	(172,188)	(25,226)
- Deferred debt issuance costs	5,600	—	—
Loss (gain) on extinguishment of convertible debts	10,634	(159,326)	(23,341)

12 Segment information

The Group has one operating segment — CECT, the operating subsidiary in the PRC. The results of CECT used by management to evaluate business performance are based on U.S. GAAP and those accounting policies are consistent with those used in the preparation of the consolidated financial statements.

Segment income is determined based on income before income tax expense and further excludes amortization of other intangible assets, impairment of goodwill, impairment of other intangible assets, fair value adjustments on property, machinery and equipment, land use rights, and income (loss) before income tax expense of the Company. Segment assets consist of the total assets of CECT excluding goodwill, other intangible assets, fair value adjustments on property, machinery and equipment, and land use rights, and other assets held by the Company.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Revenues				
- Sales of mobile phones and accessories	2,140,346	1,624,270	848,169	128,511
- Services and other revenues	13,527	8,642	7,375	1,117
Total segment and consolidated revenue	2,153,873	1,632,912	855,544	129,628
Segment income (loss)	606,853	(3,349)	(247,780)	(37,542)
Segment assets	4,327,502	4,012,783	3,231,470	489,616
Interest income	22,758	18,451	21,976	3,330
Interest expense	(72,562)	(50,368)	(40,408)	(6,122)
Depreciation	(13,898)	(10,607)	(4,931)	(747)

A reconciliation of segment income (loss) to consolidated income (loss) before income tax expense for the years ended December 31, 2008, 2009 and 2010, is as follows:

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Segment income (loss) — CECT	606,853	(3,349)	(247,780)	(37,542)
Amortization of other intangible assets	(11,727)	(4,733)	(4,433)	(672)
Impairment of goodwill	—	—	(112,814)	(17,093)
Impairment of other intangible assets	(26,235)	(13,600)	—	—
Fair value adjustment on property, machinery and equipment	1,941	5,641	1,780	270
Fair value adjustment on land use rights	26	1,144	—	—
Income (loss) before income tax expense of the Company	24,564	(223,460)	9,480	1,436
Consolidated income (loss) before income tax expense	595,422	(238,357)	(353,767)	(53,601)

A reconciliation of segment assets to consolidated total assets as of December 31, 2009 and 2010 is as follows:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Total segment assets — CECT	4,012,783	3,231,470	489,616
- Goodwill	112,814	—	—
- Other intangible assets, net	4,433	—	—
- Property, machinery and equipment, net	(6,460)	(4,680)	(709)
- Assets held by the Company	12,517	6,647	1,007
- Deferred income taxes recognized on consolidation	506	—	—
Total assets	4,136,593	3,233,437	489,914

13 Income taxes

The Company and its subsidiaries are subject to income tax on an entity basis on income arising in or derived from the tax

jurisdictions in which they operate.

The Company was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempt from BVI income taxes.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

CECT, including its Huizhou branch and its PRC subsidiaries, is subject to enterprise income tax at a rate of 25%. The deferred tax assets and liabilities of CECT and its PRC subsidiaries are measured using the enacted tax rate of 25% that applies in the years in which those temporary differences are expected to be recovered or settled.

The current tax law in the PRC also imposes a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside of China for distribution of earnings generated after January 1, 2008. Under the current tax law, the distribution of earnings generated prior to January 1, 2008 is exempt from the withholding tax. In addition, as CECT will not be distributing its earnings for the year ended December 31, 2009 and 2010 to the Company, no deferred tax liability has been recognized for the undistributed earnings of CECT through December 31, 2010.

Income tax expense consists of the following:

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Current expense	162,267	22,415	—	—
Deferred (benefit) expense	(6,550)	(10,783)	17,456	2,645
Total income tax expense	155,717	11,632	17,456	2,645

A reconciliation of the expected income tax expense (based on the PRC statutory income tax rate) to the actual income tax expense is as follows:

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Expected expense (benefit) based on PRC statutory income tax rate at 25%	148,855	(59,589)	(88,442)	(13,400)
Tax rate differential of the Company	(5,972)	53,870	(2,370)	(359)
Non-deductible expenses:				
- Share-based compensation expenses	3,667	8,730	5,473	829
- Impairment of goodwill	—	—	28,203	4,273
- Other	9,257	7,604	8,463	1,282
Non-taxable income	(90)	—	—	—
Valuation allowance	—	1,017	66,129	10,020
Actual income tax expense	155,717	11,632	17,456	2,645

Deferred income tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of those amounts shown on the consolidated balance sheets are as follows:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Deferred tax assets:			
Tax losses carried forward	1,017	44,820	6,791
Allowance for doubtful accounts	3,233	7,056	1,069
Inventory write-off	9,841	13,717	2,078
Accrued product warranties	481	384	58
Assets held for sale	2,694	—	—
Property, machinery and equipment, net	1,614	1,169	177
Impairment of investment at cost	701	—	—

Total deferred tax assets	19,581	67,146	10,173
Valuation allowance	(1,017)	(67,146)	(10,173)
Total deferred tax assets net of valuation allowance	18,564	—	—
Deferred tax liability:			
Other intangible assets, net	(1,108)	—	—
Net deferred tax assets	17,456	—	—

The tax losses carried forward by the Group will expire beginning 2014 through 2015. As of December 31, 2010, gross tax loss carryforwards totalled RMB179,277 (US\$27,163).

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Due to continued uncertainties in the business operating environment, the Group does not believe that sufficient positive evidence exists to conclude that the recoverability of its deferred tax assets is more likely than not to be realized. Consequently, the Group has provided full valuation allowances on its deferred tax assets during the year ended December 31, 2010.

As of December 31, 2009 and 2010, the Group has no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods and does not believe that there will be any significant increases or decreases of unrecognized tax benefits within the next twelve months. No interest or penalties relating to income tax matters have been imposed on the Group during the year ended December 31, 2008, 2009 and 2010, and no provision for interest and penalties is deemed necessary as of December 31, 2009 and 2010.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or its withholding agent. The statute of limitations extends to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion.

14 Distribution of income

For the years ended December 31, 2008, 2009 and 2010, substantially all of the Group's income (loss) was attributable to CECT. Income of CECT, as determined under generally accepted accounting principles in the PRC (the "PRC GAAP"), is distributable after transfer to dedicated statutory reserve funds, namely, the general reserve, the enterprise expansion fund, and the staff welfare and bonus fund, pursuant to the laws applicable to Foreign Investment Enterprises in the PRC and the Company's articles of association. These reserve funds can only be used for specific purposes and are not distributable as cash dividends. Under the relevant regulations, CECT is required to transfer at least 10% of its annual PRC GAAP income to the general reserve until such reserve reaches 50% of its registered capital.

Transfers to the enterprise expansion fund and the staff welfare and bonus fund are at the discretion of the board of directors of CECT. For the years ended December 31, 2008, 2009 and 2010, CECT made transfers to the general reserve of approximately RMB46,429, RMB513 and nil, respectively. The board of directors of CECT did not recommend any transfers to the enterprise expansion fund and the staff welfare and bonus fund for the years ended December 31, 2008, 2009 and 2010. The accumulated balances of the statutory reserve funds maintained at CECT as of December 31, 2009 and 2010 were both RMB184,068 (US\$27,889).

15 Earnings (loss) per share

The following represents a reconciliation from basic earnings (loss) per share to diluted earnings (loss) per share:

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
Net income (loss) attributable to holders of ordinary shares	423,804	(250,369)	(362,842)	(54,976)
Amount allocated to participating convertible notes	(53,889)	—	—	—
Basic net income (loss) available to holders of ordinary shares	369,915	(250,369)	(362,842)	(54,976)
Net income allocated to participating convertible notes	53,889	—	—	—
Interest on convertible notes	92,944	—	—	—
Exchange loss on revaluation of convertible notes	11,471	—	—	—
Loss on extinguishment of convertible notes	10,634	—	—	—
Gain on remeasurement of derivatives embedded in convertible notes	(144,939)	—	—	—

Fully diluted net income (loss)	<u>393,914</u>	<u>(250,369)</u>	<u>(362,842)</u>	<u>(54,976)</u>
Weighted average ordinary shares:				
Basic	49,216,000	48,034,000	52,935,000	52,935,000
Effect of dilutive ordinary share equivalents	<u>7,170,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Diluted	<u>56,386,000</u>	<u>48,034,000</u>	<u>52,935,000</u>	<u>52,935,000</u>
Earnings (loss) per ordinary share:				
Basic	<u>7.52</u>	<u>(5.21)</u>	<u>(6.85)</u>	<u>(1.04)</u>
Diluted	<u>6.99</u>	<u>(5.21)</u>	<u>(6.85)</u>	<u>(1.04)</u>

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

Except for the convertible notes issued in May 2008, all other ordinary share equivalents outstanding during the year ended December 31, 2008, including share options and warrants, were anti-dilutive and accordingly, were excluded from the calculation of diluted earnings per share for the year ended December 31, 2008. For the years ended December 31, 2009 and 2010, all ordinary share equivalents outstanding, including share options, restricted shares, convertible notes and warrants, were anti-dilutive.

16 Ordinary shares

On January 7, 2008, the Company issued 565,000 new ordinary shares at US\$7.50 per share upon the exercise of share options granted to a director and certain of the Company's employees.

On May 15, 2008, the Company repurchased 6,966,666 of its issued ordinary shares at US\$6.94 per share from two existing shareholders of the Company through the issuance of the Notes discussed in note 12 to the consolidated financial statements. All ordinary shares repurchased were subsequently cancelled.

On August 19, 2008, the holders of the Notes exercised the option to convert US\$8,251 of the principal amount of the Notes and accrued interest thereon of US\$46 into 1,511,397 ordinary shares of the Company at a conversion price of US\$5.49 per share. The stock price of the Company's ordinary shares was US\$5.31 at the date of exercise of the option to convert.

On December 4, 2009, the Company issued 960,884 ordinary shares to a director and various employees of the Group upon the vesting of restricted shares granted under the QXMC 2007 Stock Plan (Note 17(a)).

On November 23, 2009, a holder of the Notes exercised the option to convert US\$8,187 of the principal amount of the Notes and accrued interest thereon of US\$293 into 2,093,996 ordinary shares of the Company at a conversion price of US\$4.05 per share. The stock price of the Company's ordinary shares was US\$4.66 at the date of exercise of the option to convert.

On December 9, 2009, a holder of the Notes exercised the option to convert US\$7,886 of the principal amount of the Notes and accrued interest thereon of US\$296 into 2,020,290 ordinary shares of the Company at a conversion price of US\$4.05 per share. The stock price of the Company's ordinary shares was US\$4.35 at the date of exercise of the option to convert.

On April 1, 2010, the Company issued 331,391 ordinary shares to a director and various employees of the Group upon the vesting of restricted shares granted under the QXMC 2007 Stock Plan (Note 17(a)).

17 Stock plan and warrants

(a) QXMC 2007 Stock Plan

Pursuant to a shareholders' resolution passed on March 19, 2007, the Company adopted an equity incentive plan (the "QXMC 2007 Stock Plan") under which the Company may grant incentive share options, nonstatutory share options, restricted shares, share appreciation rights, restricted share units, performance units, performance shares and other stock based awards to certain qualifying directors, employees and consultants of the Group in accordance with the provisions of the QXMC 2007 Stock Plan.

On March 19, 2007, the Company granted share options to a director and various employees of the Group to purchase 2,716,520 shares of the Company's ordinary shares at an exercise price of US\$7.50 per share. The options granted have terms ranging from 2 to 6 years from the date of grant and vest on various dates commencing from November 1, 2007. In addition, on March 19, 2007, in consideration of services rendered in connection with the Company's IPO, the Company also granted an option to a consultant to purchase up to 1,200,000 shares of the Company's common stock at an exercise price of US\$18 per share with a term of four years commencing from the grant date. The option vested on April 1, 2007 and will expire on March 18, 2011.

The Company did not grant any share options during the years ended December 31, 2008, 2009 and 2010.

In December 2009, the Company granted 1,955,057 restricted shares to a director and various employees and concurrently cancelled 1,744,800 of employee share options that were outstanding under the QXMC 2007 Stock Plan. Of the 1,955,057 restricted shares that were granted, 960,884 shares vested immediately while the balance of 994,173 shares vest on various dates ending April 1, 2012. The grant of restricted shares and cancellation of outstanding share options resulted in a modification charge of approximately US\$6,360, which is being recognized over the vesting periods of the restricted shares. The modification charge recognized in 2009 and 2010 amounted to US\$3,348 (RMB22,851) and US\$1,337 (RMB9,046), respectively. As of

December 31, 2010, the total unrecognized modification charge amounted to US\$1,652, which is expected to be recognized over a remaining weighted average vesting period of 1.25 year.

QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

Stock option activity of the Company during the year ended December 31, 2010 was as follows:

	<u>Number of options</u>	<u>Weighted average exercise price per share US\$</u>	<u>Weighted average remaining contractual term</u>	<u>Aggregate intrinsic value US\$</u>
Balance as of January 1, 2010	1,200,000	18.00		
Balance as of December 31, 2010	<u>1,200,000</u>	18.00	0.2 years	—
Exercisable as of December 31, 2010	<u>1,200,000</u>	18.00	0.2 years	—

The following table summarizes the activities for the Company's unvested restricted shares for the year ended December 31, 2010:

	<u>Number of shares</u>	<u>Weighted average grant date fair value US\$</u>
Balance as of January 1, 2010	994,173	4.60
Vested	(331,391)	4.60
Canceled	(7,776)	4.60
Balance as of December 31, 2010	<u>655,006</u>	4.60
Expected to vest after December 31, 2010	<u>655,006</u>	4.60

The Company recognizes compensation cost based on the grant date fair value over the period that the employees are required to provide services in exchange for the award. The total amount of share-based compensation expenses recognized during the years ended December 31, 2008, 2009 and 2010, was approximately US\$2,111 (RMB14,668) and US\$5,115 (RMB34,922) and US\$3,236 (RMB21,892), respectively. As of December 31, 2010, there was US\$4,171 of unrecognized compensation cost related to unvested restricted shares. This amount is expected to be recognized over a remaining weighted average vesting period of 1.25 year.

(b) Warrants

Warrants outstanding during the years ended December 31, 2008, 2009 and 2010 relate to the Warrants issued in connection with the issuance of the Notes detailed in note 11 to the consolidated financial statements. Information about the Warrants outstanding as of December 31, 2010 is as follows:

	<u>Number of warrants</u>	<u>Weighted average exercise price per share US\$</u>	<u>Weighted average remaining contractual Term</u>
Investor Warrants	1,648,721	8.91	2.4 years
Agent Warrants	942,127	8.91	2.4 years
Total	<u><u>2,590,848</u></u>	<u><u>8.91</u></u>	<u><u>2.4 years</u></u>

Exercisable as of December 31, 2010

<u>2,590,848</u>	<u>8.91</u>	<u>2.4 years</u>
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QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

18 Fair value of financial instruments

The carrying amounts for cash, restricted cash, accounts receivable, prepayments to suppliers, prepaid expenses and other current assets, short-term borrowings, accounts payable, prepayments from customers, accrued liabilities, amounts due from related parties, and other payables and current liabilities, approximate their fair values because of the short maturity of these instruments.

The carrying amount and the estimated fair value of the Group's convertible notes at December 31, 2010 were RMB112,162 (US\$16,994) (2009: RMB112,162) and RMB113,449 (US\$17,189) (2009: RMB106,281), respectively. The liability-classified embedded derivatives relating to the convertible notes and the Warrants are measured at fair value at the end of each reporting period (see note 11).

19 Commitments and contingencies

The Group has operating lease agreements for office and factory premises which extend through October 2013. As of December 31, 2010, the Group's future minimum lease payments required under non-cancellable operating leases are as follows:

	<u>RMB</u>
Year ending December 31,	
- 2011	2,376
- 2012	1,751
- 2013	<u>1,051</u>
Total	<u>5,178</u>

Lease expenses of the Group for the years ended December 31, 2008, 2009 and 2010 were approximately RMB4,998, RMB6,090 and RMB6,363 (US\$964), respectively.

20 Related party transactions

(a) Name and relationship of related parties

Name of related party	Existing relationship with the Company
Qiao Xing Universal Resources, Inc. ("Xing")	Parent company
Huizhou Qiao Xing Communication Industry Ltd. ("QXCI")	Subsidiary of Xing until November 30, 2009
Qiao Xing Group Limited ("QXGL")	A company controlled by certain directors of the Company

(b) Summary of related party transactions

- (i) During the years ended December 31, 2008 and 2009, the Group received processing fee income from QXCI for handset processing services rendered, amounting to RMB6,573 and RMB1,371, respectively.
- (ii) During the year ended December 31, 2009, the Company redeemed US\$30,706 (equivalent to RMB150,000) of the principal amount of the Notes, which were owned by Xing. In addition, the Company paid to Xing US\$1,073 (equivalent to RMB7,331) for interest that was accrued on the Notes as of the date of redemption.

The Group also participates in a cash management arrangement at the direction and discretion of Xing as further described below. Other transactions with related parties are set out in other Notes to the consolidated financial statements.

(c) Summary of related party balances

	December 31,	
2009	2010	
RMB	RMB	US\$

Amount due to Xing	<u>(5,568)</u>	<u>(8,136)</u>	<u>(1,233)</u>
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QIAO XING MOBILE COMMUNICATION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

The amount represents non-interest bearing net advances to and from Xing which are unsecured and have no fixed repayment terms. The amount resulted principally from the Group's participation in a cash management arrangement at the direction and discretion of Xing (Note 2(c)) and represents the netting of the following advances to and from the related parties of Xing:

	December 31,		
	2009	2010	
	RMB	RMB	US\$
Amounts due to related parties before execution of netting arrangement:			
- Xing	(3,923)	(4,373)	(663)
- QXGL	(1,498)	(3,615)	(548)
- Director: Wu Zhi Yang	(147)	(148)	(22)
Net advances from Xing	<u>(5,568)</u>	<u>(8,136)</u>	<u>(1,233)</u>

21 Subsequent events

Subsequent to the end of the financial year ended December 31, 2010,

- (a) the Company issued 327,503 ordinary shares to a director and various employees of the Group upon the vesting of restricted shares that were granted in 2009 under the QXMC 2007 Stock Plan.
- (b) US\$16,975 of the principal amount of the Notes plus accrued interest thereon of US\$1,450 was converted into 4,549,453 ordinary shares at a conversion price of US\$4.05 per share.
- (c) CECT disposed of its 100% equity interest in Beijing Yilian Xuntong Technology Co., Ltd. to an independent third-party for a total consideration of RMB10,000.