



China Wireless Technologies Limited
中國無線科技有限公司
(Incorporated in the Cayman Islands with limited liability)

GSM

CDMA CDMA

GSM

Stock Code: 2369



INTERIM REPORT **2006**

CONTENTS

| | |
|---|----|
| Corporate Information | 02 |
| Financial Highlights | 04 |
| Management Discussion & Analysis | 05 |
| Consolidated Income Statement | 15 |
| Consolidated Balance Sheet | 16 |
| Consolidated Summary Statement of Changes in Equity | 19 |
| Consolidated Cash Flow Statement | 20 |
| Balance Sheet | 21 |
| Notes to Financial Statements | 22 |

CORPORATE INFORMATION

Registered office

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman, the Cayman Islands
British West Indies

Head office and principal place of business in the PRC

8th Floor, Block B
High Tech Plaza
Tian An Cyberpark
Che gongmiao
Shenzhen
Guangdong Province
The People's Republic of China

Principal place of business in Hong Kong

Room 1902, MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Stock Code

2369

Website address

www.chinawireless.cn

Company secretary and qualified Accountant

Mr. JIANG Chao, *ACCA*

Audit committee

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

Authorised representatives

Mr. GUO Deying
Mr. JIANG Chao

Auditors and reporting accountants

Ernst Young
Certified Public Accountants

Legal advisers to the Company As to Hong Kong law

Mallesons Stephen Jaques

Principal share registrar and transfer office

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

CORPORATE INFORMATION

Hong Kong branch share registrar and transfer office

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

Principal banker

CITIC Ka Wah Bank Limited

Investor Relations Consultant

Strategic Financial Relations (China)
Limited

FINANCIAL HIGHLIGHTS

- Achieved a turnover of HK\$434.3 million, representing an increase of 151.9% over the same period of the previous year.
- Gross profit margin is 36.5%, representing a slight decrease of 0.7% over the corresponding period in 2005.
- Attained a profit attributable to shareholders of HK\$62.3 million, representing an increase of 91.1% over the corresponding period in 2005.
- Net profit margin is 14.3%, representing a decrease of 4.7% over the corresponding period in 2005.
- Basic earnings per Share for the six months ended 30 June 2006 reached HK\$0.125, representing an increase of 56%. Diluted earnings per Share for the six months ended 30 June 2006 was HK\$0.123.
- The Directors resolved to pay an interim dividend of HK\$0.01 per Share for the six months ended 30 June 2006.

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

Turnover

For the six months ended 30 June 2006, the Group accomplished a turnover of HK\$434.3 million, representing a growth of 151.9% over that of the same period of 2005. The increase was principally attributable to sales of the smartphones products which increased by 167.5% to HK\$428.9 million from HK\$160.4 million in 2005. During the period under review, approximately 100,000 units of smartphones have been sold, compared to 45,000 units of smartphones sold over the same period of 2005.

In terms of revenue mix, during the period under review, turnover from smartphones accounted for 99% of the Group's turnover, as compared with 93% for corresponding period in 2005. Contribution from sales of wireless system solutions decreased from 7% for the six months ended 30 June 2005 to 1% over the corresponding period in 2006.

| | The six months ended at 30 June | | | |
|--------------------------------------|---------------------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | % of turnover | 2005 HK\$'000 | % of turnover |
| Wireless systems solutions | | | | |
| PHS Intelligent Coverage System | 4,876 | 1 | 7,488 | 4 |
| Integrated Telecom Business Platform | 487 | 0 | 4,524 | 3 |
| Subtotal | 5,363 | 1 | 12,012 | 7 |
| Smartphones | | | | |
| Dual-mode smartphones | 372,052 | 86 | 139,008 | 81 |
| Single-mode smartphones | 56,892 | 13 | 21,376 | 12 |
| Subtotal | 428,944 | 99 | 160,384 | 93 |
| Total | 434,307 | | 172,396 | |

MANAGEMENT DISCUSSION & ANALYSIS

Gross Profit

The Group's gross profit increased by 147.2% to HK\$158.6 million for the six months ended 30 June 2006. The gross profit margin slightly decreased by 0.7% to 36.5% in the first half of 2006. The reasons of the decline was mainly attributable to a smaller proportion of revenue from wireless system solutions, which offer relatively higher gross profit margin, in the revenue mix during the reporting period.

Selling and distribution costs

Selling and marketing expenses increased by 83.3% from HK\$16.6 million for the six months ended 30 June 2005 to HK\$30.4 million of the corresponding period in the first half of 2006, however, the ratio for selling and distribution costs over turnover decreased by 2.6% from 9.6% for the six months ended 30 June 2005 to 7% over the corresponding period in 2006.

Administrative expenses

Administrative expenses increased by 464% from HK\$10.5 million for the six months ended 30 June 2005 to HK\$59.4 million of the corresponding period in 2006. The significant increase was principal attributable to higher research and development expenses for 3G including TDSCDMA, CDMA2000 and WCDMA and the employment of more research and development staff.

Income tax expenses

For the six months ended 30 June 2006, the Group's profit tax charge amounted to HK\$11 million, as compared to HK\$5.84 million for the same period in 2005. According to the Income Tax Law of the PRC for Foreign Investment Enterprise and Foreign Enterprises and as approved by relevant tax authorities, the income tax rate of 15% was applied for the six months ended 30 June 2006, which is same as that of the corresponding period of 2005.

Net Profit

For the six months ended 30 June 2006, the Group recorded a net profit of HK\$62.3 million, an increase of 91.1% over the same period of 2005. The net profit margin dropped from 18.9% in the first half of 2005 to 14.3% in the first half of 2006. The major reasons were that the Group significantly increased its expenses in research and development, including the purchase of 3G equipment and the employment of more research and development staff.

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group's total assets amounted to HK\$750.4 million (2005: HK\$420.4 million) whereas the Group's current liabilities was HK\$324.3 million (2005: HK\$179.6 million).

As at 30 June 2006, the Group had a gearing ratio of 43% (based on total debt over total assets) (2005: 43%) and a current ratio of 1.8 (based on current assets over current liabilities) (2005: 2).

BUSINESS ACTIVITIES

As one of the leading wireless data total solutions providers and smartphone developer in the PRC, the Group offers innovative products and personalised solutions to satisfy demands of different clients and different industries.

In the reporting period, the Group successfully developed 4 new models of smartphones with propriety operation system, including one GSM-GSM model, one PHS-GSM model and two CDMA models. The successful development of these series of multi-mode products means that the Group had fully mastered multi-mode technologies and established itself as one of the leaders of multi-mode technologies. Besides these multi-mode technologies based on 2.5G networks (CDMA network, GSM network and PHS network), in the reporting period, the Group also successfully developed 3G TDSCDMA-GSM dual-mode smartphone which is being tested in TDSCDMA trial network.

During the report period, the Group achieved outstanding performances. The Group delivered approximately 100,000 units of smartphones, among which approximately 80,000 units were CDMA-GSM dual-mode smartphones, 5,000 units were PHS-GSM dual-mode smartphones, approximately four hundreds units were GSM-GSM dual-card smartphones and the remaining numbers were CDMA smartphones.

MANAGEMENT DISCUSSION & ANALYSIS

OUTLOOK

During the second half of 2006, the Group will launch 5 to 6 new smartphone models targeting different customers and telecom operators to provide wireless data total solutions. Among the new smartphone models, 2 will be CDMA-GSM dual-mode smartphone and 2 models will be CDMA smartphone for China Unicom, 1 PHS-GSM dual-mode for China Telecom and China Netcom and 1 model of TDSCDMA-GSM will be for TDSCDMA network telecom operators.

Besides the smartphone products, with China expected to formally announce its 3G policies in the foreseeable future, the Group sees a promising imminent prospect for the 3G coverage systems and 3G wireless data total solutions in the second half of 2006. The Group will further enhance its 3G coverage systems to cater for telecom operators in the PRC. In addition, since wireless data transmission speed in 3G network is markedly quicker than the current 2.5G network, the Group believes that market potential for 3G wireless data solutions would be huge. During the reporting period, the Group place more resources on the research and development of 3G technologies and has also achieved outstanding performances. The Group believes such investment will benefit the long term development of the Group.

The Group's "Coolpad" brand has been a famous brand name in the CDMA smartphone and multi-mode smartphone market. With the Group successfully obtained the GSM and CDMA handset licenses from NDRC (National Development and Reform Commission) in the first half of 2006, further marketing efforts will be made to promote its "Coolpad" brand.

USE OF PROCEEDS

The Company was listed on the Main Board of the Stock Exchange on 9 December 2004. As at 30 June 2006, the Company had used up its listing proceeds as set out in the Company's listing prospectus except for the HK\$5 million budgeted for strategic investments.

In December 2005, the Company and Data Dreamland Holdings Limited ("Data Dreamland"), a substantial shareholder of the Company and the placing agents entered into an agreement pursuant to which the Company issued and placed 40,000,000 new Shares, at a price of HK\$1.05 per Share by way of top up placing. The net proceeds from the placement of the Company were approximately

MANAGEMENT DISCUSSION & ANALYSIS

HK\$40.5 million, of which HK\$35 million had been utilised for the purchase of materials and components, and of which HK\$5.5 million for marketing and promotion of new smartphone products at 30 June 2006.

In January 2006, the Company and Data Dreamland and the placing agents entered into an other agreement pursuant to which the Company issued and placed 40,000,000 new Shares, at a price of HK\$1.22 per Share by way of top up placing. The net proceeds from the placement of the Company were approximately HK\$47.6 million, of which HK\$40 million had been utilised for the purchase of materials and components and HK\$7.6 million for marketing and promotion of new smartphone products at 30 June 2006.

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK\$20,796,000. The remuneration of the Group's employees are commensurate with their responsibilities and market levels, with discretionary bonuses and training given on a performance-related basis.

SIGNIFICANT INVESTMENTS

As disclosed in the announcement of the Group dated 23 February 2006, Shenzhen Yulong had successfully acquired a property located in North District, Hi-New Technology Industrial Park, Shenzhen with a total construction area of 48,455 square metres at the consideration of RMB87,076,000 (approximately HK\$84,590,000). It is intended that this property will be occupied by the Group for office use.

MATERIAL ACQUISITION AND DISPOSALS DURING THE PERIOD

Except for the acquisition of a piece of land and buildings thereon located in the Hi-New Technology Industrial Park of Shenzhen, the PRC as disclosed in the Company's announcement and circular dated 23 February 2006 and 16 March

MANAGEMENT DISCUSSION & ANALYSIS

2006 respectively, there were no material acquisitions and disposals of the Company, its subsidiaries and associated companies for the six months ended 30 June 2006.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SHARE OPTION SCHEME

The Company has adopted a share option scheme ("Share Option Scheme") by a written resolution of all shareholders of the Company on 21 November 2004. Details of options granted under the Scheme were disclosed in Note 19 to the Condensed Financial Statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

As at 30 June 2006, the interests and short positions of the directors, the chief executive or their associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the

MANAGEMENT DISCUSSION & ANALYSIS

register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), were as follows:

(i) Long positions in the Shares

| Name of director | Note | Number of Shares in which interested | | | | | Total | % of Company's issued share capital |
|------------------|-------|--------------------------------------|----------------------------------|--------------------------------|------------------------|----------------------------------|-------------|-------------------------------------|
| | | Directly beneficially owned | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | Founder of a discretionary trust | | |
| Mr Guo Deying | 1 & 2 | — | 207,792,812 | 14,000,000 | — | 207,792,812 | 221,792,812 | 44.52% |
| Ms Yang Xiao | 1 | — | 207,792,812 | — | — | 207,792,812 | 207,792,812 | 41.71% |
| Mr Jiang Chao | 3 | — | — | — | 14,000,000 | — | 14,000,000 | 2.81% |

(ii) Long positions in shares of associated corporation

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

Notes:

- The entire issued share capital of Data Dreamland Holding Limited (“Data Dreamland”) is held by Barrie Bay Limited (“Barrie Bay”), which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust, of which 9,999 units are held by HSBC International Trustee Limited (“HSBC Trustee”) acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr Guo Deying (“Mr Guo”) an executive Director and his spouse, Ms Yang Xiao (“Ms Yang”), a non-executive Director, the beneficiary objects of which include the minor children of Mr Guo and Ms Yang. Each of Mr Guo and Ms Yang is taken to be interested in the 207,792,812 Shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their children under the Barrie Bay Trust. The long position of each of Mr Guo and Ms Yang under the column “Through spouse or minor children” and the column “Founder of discretionary trust” under the table headed “Long position in shares of the Company” above refers to the same 207,792,812 Shares.

MANAGEMENT DISCUSSION & ANALYSIS

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

2. M. Guo is taken to be interested in the 14,000,000 Shares held by Wintech Consultants Limited as he is interested in the entire issued share capital of Wintech Consultants Limited.
3. Mr Jiang Chao, an executive director, is taken to be interested in the 14,000,000 Shares held by Wintech Consultants Limited as he is one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group.

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

As at 30 June 2006, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company:

| Name | Notes | Number of shares in which interested | Number of shares interested under equity derivatives | Nature of interest | Percentage of the Company's issued share capital | |
|------------------------------------|-------|--------------------------------------|--|------------------------------------|--|----------------------|
| | | | | | Total number of shares | issued share capital |
| Data Dreamland Holding Limited | 1 | 207,792,812 | — | Beneficial owner | 207,792,812 | 41.71% |
| Barrie Bay Limited | 2 | 207,792,812 | — | Interest of controlled corporation | 207,792,812 | 41.71% |
| HSBC International Trustee Limited | 2 | 207,792,812 | — | Trustee | 207,792,812 | 41.71% |

MANAGEMENT DISCUSSION & ANALYSIS

Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust of which 9,999 units are held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo and Ms. Yang and the discretionary objects of which include the minor children of Mr. Guo and Ms. Yang.
2. The 207,792,812 Shares are held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.

Save as disclosed above, as at 30 June 2006, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

Code Provision A.2.1 of the Code of Corporate Governance Practices as was set out in Appendix 14 of the Listing Rules ("Code") stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Guo Deying is the chairman of the Board and the Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management and believes that this structure enables the Group to make and implement decision promptly and efficiently. In addition, the Board is of the view that, in view of the currently scale of operations of the Group, the separation of the role of the chairman and chief executive officer of the Company may hinder administrative efficiency and is neither suitable to the Group nor in the interests of shareholders as a whole.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company was not, for any part of the six months period ended 30 June 2006, in compliance with the Code of Corporate Governance Practices as was set out in Appendix 14 of the Listing Rules.

MANAGEMENT DISCUSSION & ANALYSIS

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The audit committee (“Audit Committee”) of the Company comprising four independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group’s unaudited financial statements for the six months period ended 30 June 2006.

MATERIAL LEGAL PROCEEDINGS

As at 30 June 2006, as far as the Directors were aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company.

CONSOLIDATED INCOME STATEMENT

The Board of Directors of China Wireless Technologies Limited (the “Company”) is pleased to present the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2006, together with the unaudited comparative figures for the same period of 2005. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

| | Notes | The six months ended 30 June | |
|--|-------|---------------------------------|-------------------------------|
| | | 2006 HK\$'000 Unaudited | 2005 HK\$'000 Unaudited |
| REVENUE | 4 | 434,307 | 172,396 |
| Cost of sales | | (275,754) | (108,249) |
| Gross profit | | 158,553 | 64,147 |
| Other income and gains | 4 | 6,996 | 4,079 |
| Selling and distribution costs | | (30,362) | (16,564) |
| Administrative expenses | | (59,369) | (10,518) |
| Other expenses | | (175) | (860) |
| Finance costs | 6 | (2,370) | (1,815) |
| PROFIT BEFORE TAX | 5 | 73,273 | 38,469 |
| Tax | 8 | (10,988) | (5,843) |
| PROFIT FOR THE YEAR | | 62,285 | 32,626 |
| DIVIDENDS | 9 | 4,982 | 4,000 |
| Proposed Interim dividend | | 4,982 | 4,000 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY | 10 | | |
| Basic | | 12.54 cents | 8.00 cents |
| Diluted | | 12.27 cents | 8.00 cents |

CONSOLIDATED BALANCE SHEET

| | Notes | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|--|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 130,877 | 39,095 |
| Intangible assets | | 22,538 | 25,373 |
| Total non-current assets | | 153,415 | 64,468 |
| CURRENT ASSETS | | | |
| Inventories | 12 | 95,742 | 64,599 |
| Trade receivables | 13 | 230,938 | 110,652 |
| Prepayments, deposits and other receivables | 14 | 233,473 | 193,419 |
| Due from directors | | — | 201 |
| Pledged deposits | | 4,698 | 49,077 |
| Cash and cash equivalents | | 32,237 | 109,606 |
| Total current assets | | 597,088 | 527,554 |

CONSOLIDATED BALANCE SHEET

| | Notes | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|--|--------|--|--|
| CURRENT LIABILITIES | | | |
| Trade payables | 16 | 46,566 | 27,263 |
| Notes payable | 17 | 82,949 | 91,360 |
| Other payables and accruals | | 91,994 | 104,635 |
| Interest-bearing bank and other borrowings | | 72,858 | 31,716 |
| Due to a related company | 15, 22 | 26 | 106 |
| Due to directors | | — | 164 |
| Dividend payable | | 440 | — |
| Tax payable | | 29,514 | 21,047 |
| Total current liabilities | | 324,347 | 276,291 |
| NET CURRENT ASSETS | | 272,741 | 251,263 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 426,156 | 315,731 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 2,057 | 2,035 |
| Total non-current liabilities | | 2,057 | 2,035 |
| Net assets | | 424,099 | 313,696 |

CONSOLIDATED BALANCE SHEET

| | Notes | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|--|-------|--|--|
| EQUITY | | | |
| Equity attributable to equity holders of the parent company | | | |
| Issued capital | 18 | 4,982 | 4,490 |
| Reserves | | 414,135 | 299,242 |
| Proposed final dividend | | — | 9,964 |
| Proposed interim dividend | 9 | 4,982 | — |
| Total equity | | 424,099 | 313,696 |

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

| | The six months ended 30 June | |
|--|--|---------------------------------|
| | 2006 HK\$'000 (Unaudited) | 2005 HK\$'000 (Unaudited) |
| TOTAL EQUITY | | |
| Balance at beginning of year | 313,696 | 215,010 |
| Profit for the year | 62,285 | 32,626 |
| Dividends paid | (9,964) | (8,000) |
| Issue of shares, including share premium | 56,337 | — |
| Share issue expenses | (2,768) | — |
| Share option reserve | 244 | — |
| Exchange fluctuation reserve | 4,269 | — |
| Balance at end of the period | 424,099 | 239,636 |

CONSOLIDATED CASH FLOW STATEMENT

| | The six months ended | |
|--|----------------------|-------------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Net cash inflow/(outflow)from operating activities | (115,467) | (4,703) |
| Net cash inflow/(outflow) from investing activities | (43,540) | (6,020) |
| Net cash inflow/(outflow) from financing activities | 82,476 | (22,034) |
| Net increase/(decrease) in cash and bank balances | (76,531) | (32,757) |
| Cash and bank balances at beginning of period | 109,606 | 80,352 |
| Effects of foreign exchange rate changes, net | (838) | — |
| Cash and bank balances at end of the period | 32,237 | 47,595 |

BALANCE SHEET

| | Notes | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|-----------------------------|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 11 | 219,775 | 162,433 |
| Intangible assets | | 5,835 | 6,613 |
| Total non-current assets | | 225,610 | 169,046 |
| CURRENT ASSETS | | | |
| Other receivables | | 23 | — |
| Cash and cash equivalents | | 1,340 | 8,507 |
| Total current assets | | 1,363 | 8,507 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 440 | 42 |
| Due to directors | | 1,455 | 1,699 |
| Total current liabilities | | 1,895 | 1,741 |
| NET CURRENT ASSETS | | | |
| | | (532) | 6,766 |
| Net assets | | 225,078 | 175,812 |
| EQUITY | | | |
| Issued capital | | 4,982 | 4,490 |
| Reserves | | 215,114 | 161,358 |
| Proposed final dividend | | — | 9,964 |
| Proposed interim dividend | 9 | 4,982 | — |
| Total equity | | 225,078 | 175,812 |

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

China Wireless Technologies Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

During the reporting period, the Group was involved in providing wireless solutions and smartphone for the wireless telecommunication market in Mainland China.

In the opinion of the directors, the parent company and the ultimate holding company of the Group is Data Dreamland Holding Limited (“Data Dreamland”), which was incorporated in the British Virgin Islands (the “BVI”).

Pursuant to the Group reorganisation as set out in the Company's prospectus dated 30 November 2004, Mr Guo Deying and Ms Yang Xiao transferred 5,000 and 45,000 shares respectively in Yulong Infotech Ins (“YII”) (which, together, constitute the entire issued share capital of YII) to the Company in consideration of which the Company allotted and issued 8,639,999 shares credited as fully paid to Data Dreamland. Ms Ma Dehui and Ms Yang Xiao transferred 1 and 9 shares respectively in Digital Tech Inc (“DTI”) (which, together, constitute the entire issued share capital of DTI) to the Company in consideration for the Company allotting and issuing 9,360,000 shares credited as fully paid to Data Dreamland Pursuant to the Group Reorganisation. Mr Guo Deying also transferred 1 share to Data Dreamland in cash at par. Immediately following such allotment, issue and transfer of shares the Company became wholly owned by Data Dreamland and the entire share capital of YII and DTI were incorporated in the BVI on 27 June 2000 and 25 March 2002 respectively. Both companies are the intermediate holding companies of Yulong Compute Telecommunication Scientific (Shenzhen) Co. Ltd (“Shenzhen Yulong”) the principal operating subsidiary of the Company established in the People's Republic of China (the “PRC”).

In the month of March 2006 Coolpad Software Tech (Shenzhen) Co Ltd was registered in the People's Republic of China. Its principal activities are Research and development and sell of the mobile telecommunication, computer and multimedia tech. YII and DTI are the intermediate holding companies.

NOTES TO FINANCIAL STATEMENTS

2.1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to facilitate an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for the full financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial results report for the six months ended 30 June 2006 was unaudited, but has been reviewed by the Audit Committee of the Company.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new standards, amendments and interpretations to the existing standards have been published and are mandatory for the accounting periods on or after 1 January 2006.

| | |
|------------------------------|--|
| IAS19 (Amendment) | Employee Benefits |
| IAS39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions |
| IAS39 (Amendment) | The fair value option |
| IAS 39 and IFRS4 (Amendment) | Financial guarantee contracts |
| IFRS1 (Amendment) | First-time adoption of international financial reporting standards |
| IFRIC4 | Determining whether an arrangement contains a lease |

NOTES TO FINANCIAL STATEMENTS

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Management has assessed the relevance of these new standards, interpretations and amendments with respect to the Group's operations and their impact on the Group's accounting policies. In summary:

- i) IAS19 (Amendment), IAS39 (Amendment) Cash flow hedge accounting of forecast intragroup transactions, IAS 39 and IFRS4 (Amendment) Financial guarantee contracts and IFRS1 (Amendment) are not relevant to the Group's operations.
- ii) IAS39 (Amendment) The fair value option and IFRIC4 did not result in substantial changes to the Group's accounting policies.

The Group has adopted HKFRS2, which is applied to options granted to employees on or after 7 November 2002 and not vested on 1 January 2005. As the Group did not have any employee share options which were granted before June 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 1 January 2005 but an impact on the comparative six months' profits and earnings per share.

Upon the adoption of HKFRS 2, the consolidated current six months' profits decreased by HK\$244,199 as a result of an increase in the employee compensation expense included in administrative expenses while also resulted in an increase in equity.

The effects on basic and diluted earnings per share are as follows:

- basic earnings per share decreased by 0.049 cent.
- diluted earnings per share decreased by 0.048 cent.

NOTES TO FINANCIAL STATEMENTS

3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China. The Group's operations are principally located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments in the market of Mainland China. Summary details of the business segments are as follows:

- (a) the wireless system solutions segment enables network operators to extend and enhance the transmission quality of their telecommunication networks and support their telecommunication services with management functions and user interface that can provide value-added services to subscribers; and
- (b) the smartphone segment consists of the provision of dual-mode and single-mode smartphones which integrated the functions of a mobile phone and wireless data applications like e-mail and other industry specific applications.

NOTES TO FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (Continued)

| | The six months ended 30 June | |
|--------------------------------|---------------------------------|-------------------------------|
| | 2006 HK\$'000 Unaudited | 2005 HK\$'000 Unaudited |
| Segment revenue: | | |
| Wireless system solutions | 5,364 | 12,012 |
| smartphones | 428,943 | 160,384 |
| Consolidated revenue | 434,307 | 172,396 |
| Segment net profit: | | |
| Wireless system solutions | 1,165 | 4,762 |
| smartphones | 91,648 | 41,636 |
| | 92,813 | 46,398 |
| Unallocated corporate expenses | (17,170) | (6,114) |
| Finance costs, net | (2,370) | (1,815) |
| Profit before tax | 73,273 | 38,469 |
| Tax | (10,988) | (5,843) |
| Profit for the year | 62,285 | 32,626 |

NOTES TO FINANCIAL STATEMENTS

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods during the six months ended 30 June 2006, after allowances for returns and trade discounts and net of sales tax and value-added tax. All significant intra-group transactions have been eliminated on consolidation.

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

| | The six months ended 30 June | |
|---|---|-------------------------------|
| | 2006 HK\$'000 Unaudited | 2005 HK\$'000 Unaudited |
| Revenue | | |
| Sale of wireless system solutions and smartphones | 434,307 | 172,396 |
| Other income and gains | | |
| Rental income | — | 146 |
| Bank interest income | 962 | 538 |
| Government grants and subsidies* | 3,070 | 3,235 |
| Maintenance income | 2,658 | 75 |
| Sundry income | 306 | 85 |
| | 6,996 | 4,079 |
| | 441,303 | 176,475 |

* The amount mainly represented value added tax ("VAT") refund from a tax bureau and government grants received from a finance bureau to support the research and development of the Group.

NOTES TO FINANCIAL STATEMENTS

5. PROFIT BEFORE TAX

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

| | The six months ended | |
|---|-----------------------------|-----------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| | Unaudited | Unaudited |
| Cost of inventories sold | 275,754 | 108,249 |
| Depreciation | 1,392 | 1,258 |
| Amortisation of patents and licences* | 3,066 | — |
| Research and development costs: | | |
| Product development costs amortised* | 1,476 | 731 |
| Current year expenditure | 38,199 | 3,204 |
| | 39,675 | 3,935 |
| Operating lease rental | 52 | 52 |
| Loss on disposal of items of property, plant and equipment | 174 | — |
| Staff costs (including directors' and senior executives' emoluments): | | |
| Salaries and wages | 18,858 | 10,610 |
| Staff welfare expenses | 580 | 639 |
| Pension scheme contributions | 1,081 | 746 |
| Equity-settled share option expense | 277 | — |
| Total staff costs | 20,796 | 11,995 |
| Rental income | — | (146) |
| Bank interest income | (962) | (538) |

* The amortisation of patents and licenses and deferred development costs for the six months are included in "Administrative expenses" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

6. FINANCE COSTS

| | The six months ended 30 June | |
|--|---------------------------------|-------------------------------|
| | 2006 HK\$'000 Unaudited | 2005 HK\$'000 Unaudited |
| Interest expense on: | | |
| Bank loans repayable in full within one year | 2,370 | 1,815 |
| | 2,370 | 1,815 |

7. DIRECTORS' REMUNERATION

Directors' remuneration for the period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | The six months ended 30 June | |
|---|---------------------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Fees: | 436 | 115 |
| Other emoluments of executive directors: | | |
| Salaries, allowances and benefits in kind | 426 | 228 |
| Pension scheme contributions | 2 | 2 |
| | 428 | 230 |
| | 864 | 345 |

NOTES TO FINANCIAL STATEMENTS

7. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees should be paid to the Group's non-executive directors during the six months ended 30 June were as follows:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---------------------|------------------|------------------|
| Mr. Xie Weixin | — | — |
| Dr. Huang Dazhan | 60 | 60 |
| Mr. Chan King Chung | 50 | 50 |
| Mr Yang Xianzu | 10 | — |
| | 120 | 110 |

There were no other emoluments payable to the independent non-executive directors during the reporting period.

(b) Executive directors and non-executive directors

| Six months ended 30 June 2006 | Salaries, allowances and benefits in kind | | Performance related bonuses | Pension scheme contributions | Total remuneration |
|----------------------------------|---|------------------------------|-----------------------------|------------------------------|--------------------------|
| | Fees HK\$'000 | benefits in kind HK\$'000 | bonuses HK\$'000 | contributions HK\$'000 | remuneration HK\$'000 |
| Executive directors: | | | | | |
| Mr. Guo Deying | — | 305 | — | — | 305 |
| Mr. Jiang Chao | — | 61 | — | 2 | 63 |
| Non-executive directors: | | | | | |
| Ms. Ma Dehui | — | — | — | — | — |
| Ms. Yang Xiao | — | 60 | — | — | 60 |
| | — | 426 | — | 2 | 428 |

NOTES TO FINANCIAL STATEMENTS

7. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors (Continued)

| Six months ended 30 June 2005 | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Performance related bonuses HK\$'000 | Pension scheme contributions HK\$'000 | Total emoluments HK\$'000 |
|----------------------------------|------------------|---|--|---|---------------------------------|
| Executive directors: | | | | | |
| Mr. Guo Deying | — | 171 | — | — | 171 |
| Mr. Jiang Chao | — | 62 | — | 2 | 64 |
| Non-executive directors: | | | | | |
| Ms. Ma Dehui | — | — | — | — | — |
| Ms. Yang Xiao | — | — | — | — | — |
| | — | 233 | — | 2 | 235 |

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

8. TAX

No provision for Hong Kong profits tax has been made (2005: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the reporting periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | The six months ended 30 June | |
|-------------------------------|---------------------------------|-------------------------------|
| | 2006 HK\$'000 Unaudited | 2005 HK\$'000 Unaudited |
| Current year provision: | | |
| Hong Kong | — | — |
| Mainland China | 10,988 | 5,843 |
| Total tax charge for the year | 10,988 | 5,843 |

NOTES TO FINANCIAL STATEMENTS

8. TAX (Continued)

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Yulong Computer Telecommunication Scientific Co., Ltd (“Shenzhen Yulong”), a wholly-owned subsidiary of the Company operating in Mainland China, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from the corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996. An income tax rate of 15% was applied for the period ended 30 June 2006.

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and a majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

| | The six months ended 30 June | |
|--|---|-------------------------------|
| | 2006 HK\$'000 Unaudited | 2005 HK\$'000 Unaudited |
| Profit before tax | 76,305 | 38,469 |
| Tax at the applicable tax rate (2006: 15%, 2005: 15%) | 11,446 | 5,770 |
| Expenses not deductible for tax | — | 73 |
| Income not subject to tax | (458) | — |
| Tax charge at the Group's effective rate (June 2006: 14.4%, June 2005: 15.2%) | 10,988 | 5,843 |

NOTES TO FINANCIAL STATEMENTS

9. DIVIDENDS

The Directors resolved to declare interim dividend of HK\$0.01 per Share in respect of the six months ended 30 June 2006 to shareholders whose name appear on the register of members of the Company by close of business on 20 September 2006 (six months ended 30 June 2005: HK\$0.01 per Share) For this purpose the register of members of the Company will be closed from 18 to 20 September 2006 (both days inclusive) during which no transfer of Shares will be effected.

A final dividend of HK\$0.02 per Share for the year ended 31 December 2005 has been paid in 2006.

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

The calculation of basic earnings per Share is based on the net profit for the six months ended 30 June attributable to ordinary equity holders of the parent Company of HK\$62,285,000, and the weighted average number of ordinary shares in issue during the six months ended 30 June 2006 of 496,533,701, as adjusted to reflect the rights issue during the period.

The calculation of diluted earnings per Share is based on the net profit for the six months ended 30 June 2006 attributable to ordinary equity holders of the parent company of HK\$62,285,000. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period of 496,533,701, as used in the basic earnings per share calculation and the weighted average number of ordinary shares of 10,956,991 assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY (Continued)

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

| | The six months ended | |
|---|-----------------------------|-------------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Earnings | | |
| Net profit attributable to ordinary equity holders of the parent company, used in the basic earnings per share calculation: | 62,285 | 32,626 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 496,533,701 | 400,000,000 |
| Effect of dilution-Weighted average number of ordinary shares: | | |
| Share options | 10,956,991 | — |
| | 507,490,692 | 400,000,000 |

11. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|-----------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 44,991 | 44,991 |
| Due from subsidiaries | 174,784 | 117,442 |
| | 219,775 | 162,433 |

NOTES TO FINANCIAL STATEMENTS

11. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are approximate to their fair value.

The amounts due from subsidiaries included in the Company's non-current assets are unsecured, interest-free and are not repayable within one year.

Particulars of the subsidiaries are as follows:

| Company | Place of incorporation/ registration and operations | Nominal value of issued and fully paid-up registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|--|--|--|----------|---|
| | | | Direct | Indirect | |
| Yulong Infotech Inc. | BVI/ Mainland China | Ordinary US\$50,000 | 100 | — | Investment holding |
| Digital Tech Inc. | BVI/Mainland China | Ordinary US\$10 | 100 | — | Investment holding |
| Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. | Mainland China | Paid-up and registered RMB200,000,000 | — | 100 | Wireless solutions and equipment provider for the wireless telecommunication market in Mainland China |
| Coolpad Software Tech (Shenzhen) Co., Ltd | Mainland China | Paid-up HKD1,500,000 Registered HKD10,000,000 | | 100 | Research and development and sell of the mobile telecommunication, computer and multimedia tech |

12. INVENTORIES

| | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|------------------|--|--|
| Raw materials | 47,953 | 30,022 |
| Work in progress | 23,950 | 8,524 |
| Finished goods | 23,839 | 26,053 |
| | 95,742 | 64,599 |

NOTES TO FINANCIAL STATEMENTS

13. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months and a longer credit term of four to six months may be extended to customers with long term business relationship and good repayment history. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

| | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|----------------------|--|--|
| Within 3 months | 210,941 | 93,346 |
| 4 to 6 months | 20,007 | 14,648 |
| 7 to 12 months | 640 | 2,824 |
| 1 to 2 years | 836 | 1,180 |
| More than 2 years | 1,125 | 1,237 |
| | 233,549 | 113,235 |
| Provision | (2,583) | (2,583) |
| Exchange realignment | (28) | — |
| | 230,938 | 110,652 |

NOTES TO FINANCIAL STATEMENTS

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|--------------------------------|--|--|
| Prepayments | 177,016 | 171,667 |
| Deposits and other receivables | 56,457 | 21,752 |
| | 233,473 | 193,419 |

The balance of prepayments mainly represented prepayments to suppliers for the purchase of raw materials.

15. DUE FROM/TO A RELATED COMPANY

The balance due to a related company mainly represented a rental charge payable for warehouse facilities, which is unsecured, interest-free and has no fixed terms of repayment. The amount due to a related company has been fully settled in July 2006.

16. TRADE PAYABLES

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

| | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|------------------|--|--|
| Within 3 months | 40,948 | 24,994 |
| 4 to 6 months | 3,586 | 349 |
| 7 to 12 months | 1,152 | 540 |
| More than 1 year | 880 | 1,380 |
| | 46,566 | 27,263 |

NOTES TO FINANCIAL STATEMENTS

17. NOTES PAYABLE

The aging of the Group's notes payable as at the balance sheet date, based on the invoice date, is within three months.

18. SHARE CAPITAL

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| Authorised: | | |
| 1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK\$0.01 each | 10,000 | 10,000 |
| Issued and fully paid: | | |
| 498,180,000(2005: 449,000,000) ordinary shares of HK\$0.01 each | 4,982 | 4,490 |

During the six months ended 30 June 2006 , the movements in share capital were as follows:

- (a) Options to subscribe for 5,000,000 Share were exercised at an exercise price of HK\$0.70 per Share (note 19), resulting in the issue of 5,000,000 Shares for a total cash consideration, before expenses, of HK\$3,500,000.
- (b) Options to subscribe for 4,180,000 Share were exercised at an exercise price of HK\$0.87 per Share (note 19) resulting in the issue of 4,180,000 Shares for a total cash consideration, before expenses, of HK\$3,636,600.
- (c) 40,000,000 Shares were issued for cash at a subscription price of HK\$1.22 per Share for a total cash consideration, before expenses, of HK\$48,800,000.

NOTES TO FINANCIAL STATEMENTS

19. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on 21 November 2004, certain employees, consultants, advisers, suppliers or customers of the Group may be granted options to subscribe for the Shares of the Company.

Movements of the share options granted under the Scheme during the six months ended 30 June 2006 are as follows:

| Name or category of participant | Number of share options | | | | Price of Company's shares** | | | | | | |
|---------------------------------|-------------------------|-------------------------------------|---------------------------------------|---------------------------------------|-----------------------------|--------------------------------------|----------------------------------|--|-------------------------------|--------------------------------------|----------------------------------|
| | At 31 December 2005 | Granted during the reporting period | Exercised during the reporting period | Forfeited during the reporting period | At 30 June 2006 | Date of grant of 2006 share options* | Exercise period of share options | Exercise price of share options** HK\$ | At grant date of options HK\$ | Immediately before the exercise date | At exercise date of options HK\$ |
| Employees | | | | | | | | | | | |
| In aggregate | 1,000,000 | — | (1,000,000) | — | — | 6/2/2005 | 7-06-05 to 6-06-07 | 0.7 | 0.69 | 1.3 | 1.43 |
| In aggregate | 16,000,000 | — | — | — | 16,000,000 | 6/6/2005 | 7-06-05 to 6-06-08 | 0.7 | 0.7 | — | — |
| In aggregate | 10,000,000 | — | (4,180,000) | — | 5,820,000 | 6/20/2005 | 28-06-05 to 27-06-09 | 0.87 | 0.87 | 1.51 | 1.56 |
| | 27,000,000 | — | (5,180,000) | — | 21,820,000 | | | | | | |
| Business consultant | | | | | | | | | | | |
| Individual consultant | 4,000,000 | — | (4,000,000) | — | — | 6/6/2005 | 7-06-05 to 6-06-08 | 0.7 | 0.7 | 1.54 | 1.49 |
| | 31,000,000 | — | (4,000,000) | — | 21,820,000 | | | | | | |

NOTES TO FINANCIAL STATEMENTS

20. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for lease terms of 39 months. The total future minimum lease payments under non-cancellable operating leases committed at the respective balance sheet dates to be made by the Group were as follows:

| | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|---|--|--|
| Within one year | 79 | 106 |
| In the second to fifth years, inclusive | — | 26 |
| | 79 | 132 |

21. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|--|--|--|
| Trade receivables discounted with recourse | — | 705 |

Note:

The trade receivables discounted with recourse belonged to Shenzhen Yulong, a subsidiary of the Company.

As at the balance sheet date, the Company had no significant contingent liabilities.

NOTES TO FINANCIAL STATEMENTS

22. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transaction with a related party during the six months:

| | 30 June 2006 HK\$'000 (Unaudited) | 31 December 2005 HK\$'000 (Audited) |
|-------------------------------------|--|--|
| Rental expense to a related company | 53 | 106 |

Note:

During the six months, Shenzhen Yulong used the warehouse facilities of Shenzhen Space Star Network Company Limited ("Space Star"), at an annual charge of HK\$106,000. The rental charge was made according to the market rates.

- (b) Outstanding balance with a related party:

As disclosed in the consolidated balance sheet and in note 20, the Group had an outstanding payable to Space Star of HK\$26,000 (2005: 106,000). The payable is unsecured, interest-free and has no fixed terms of repayment.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been, throughout the six months ended 30 June 2006, the Group's policy that no trading in financial instruments shall be undertaken.

NOTES TO FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The main risks arising from the Group's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing these risks and they are summarised below.

Foreign currency risk

As the Group's investment operations are located in Mainland China, the Group's balance sheet can be affected significantly by movements in the HK\$/RMB exchange rates. Since the exchange rates did not fluctuate significantly in prior years, the Group did not seek to hedge this exposure.

The Group has no transactional currency exposure as all sales and purchases are denominated in RMB, the functional currency of Shenzhen Yulong, which is the sales making unit of the Group.

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 September 2006.